

Wealth inequality and housing market: the case of Spain

Pedro Salas-Rojo

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Many outcomes and drivers associated with inequality

- ▶ Incomes.
- ▶ Health / Education.
- ▶ Gender / ethnicity / ...
- ▶ Social class.
- ▶ Geographical / regional.
- ▶ ...

And **wealth inequalities**.

The 5W's + the H of Wealth

- ▶ What is wealth?
- ▶ Where does it come from?
- ▶ Why should we care?
- ▶ Who owns wealth?
- ▶ When: Wealth inequality through time.
- ▶ How is wealth distributed?

Focus: Real estate wealth and the case of housing in Spain.

What is wealth?

Wealth (net wealth, net worth) is the difference between assets and debts.

- ▶ Assets: stock of resources with economic value owned by an individual or household: flat, house, bank deposit, listed shares, garages, expensive private art...
- ▶ Debts: stock of obligations associated with assets.

What about durable consumption goods like cars and jewels?

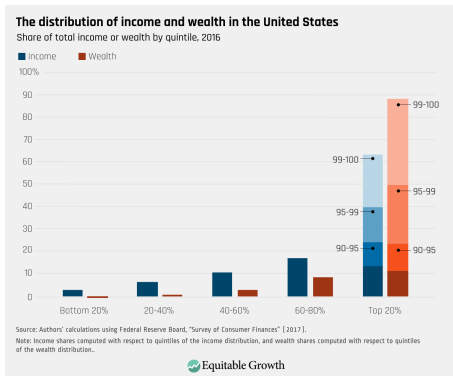
Rule of thumb: if they are expected to maintain or increase the market value with time: YES.

Firms do not own wealth. People own wealth.

Income vs wealth

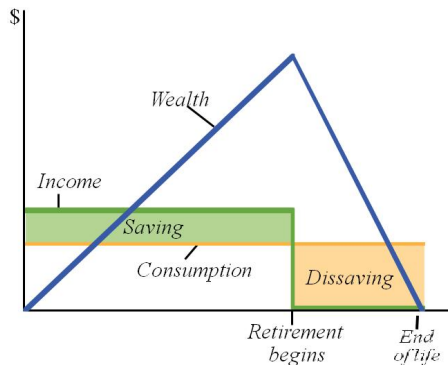
Income: flow of resources. Wages, capital incomes, public and private transfers, awards, prizes, lottery, bribes,...

Wealth: stock of resources (assets) minus stock of liabilities (debts).



A simple model relating incomes and wealth (Modigliani, 1966)

$$\begin{aligned}\text{income}_t &= \text{consumption}_t + \text{savings}_t \\ \text{income}_t &= \text{labor}_t + \text{wealth}_{t-1} \cdot (r) + \text{other}_t \\ \text{wealth}_t &= \text{savings}_t + \text{wealth}_{t-1}\end{aligned}$$



Income and consumption

Income and consumption have a concave relation:

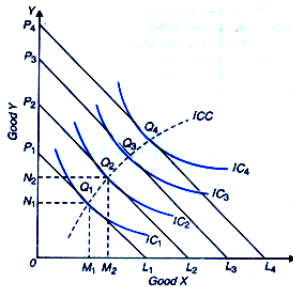


Fig. 8.28. Income Consumption Curve: Income Effect

The opposite happens with incomes and savings.

Higher incomes \rightarrow Higher savings \rightarrow Higher wealth

To recap: wealth accumulation dynamics

Wealth is a stock of resources.

Wealth accumulates from savings (regular incomes) and extraordinary incomes (inheritances, lottery, gifts ...).

Wealth changes its value (interest rates, price of assets,...).

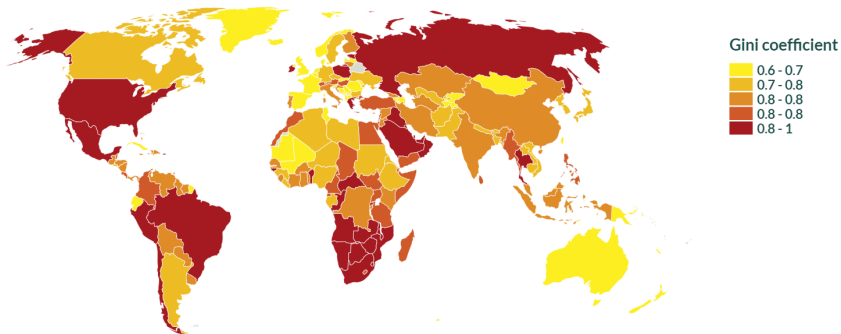
It tends to be quite unequal due to:

- ▶ Concave relation savings/incomes.
- ▶ Heterogeneity in investment ability.
- ▶ Extraordinary incomes are often dynastic.

Is wealth inequality high? (I)

Gini index of net personal wealth

Region View



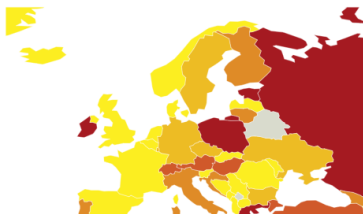
World Inequality Report (2022)

Beware: Wealth and savings, a complex relation

Wealth comes from savings. What if households feel so secure that they do not save much?

Austria, Finland, Germany or Sweden are good examples:

Gini index of net personal wealth

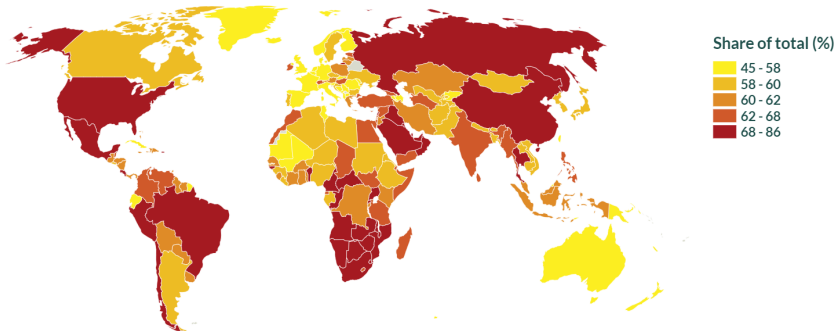


World Inequality Report (2022)

Is wealth inequality high? (II)

Top 10% net personal wealth share

Region Vie



World Inequality Report (2022)

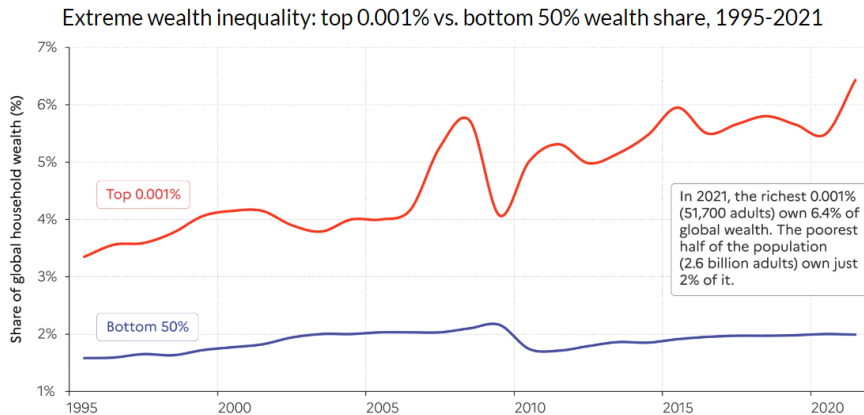
Why care about wealth inequality?

Wealth is **power** to buy other people's labor (Smith's Wealth of Nations, Book 1, Chapter V; quoting Hobbes.).

Wealth is **power** to influence the economic structure, fiscal regimes, political outcomes, elections, economic behavior, media... (Islam and McGillivray (2020), Scheve and Stasavage (2017), Zucman (2019)).

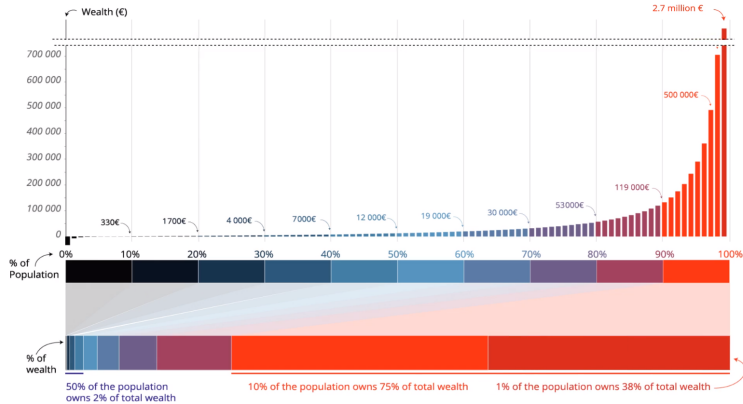
Low wealth levels are associated with worse labor market performance, inability to face risks, vulnerability to economic crises, shorter lives,... (Cowell et al. (2019), Salas-Royo and Rodríguez (2021), Hajat et al. (2011))

Who owns wealth? (I)



World Inequality Report (2022)

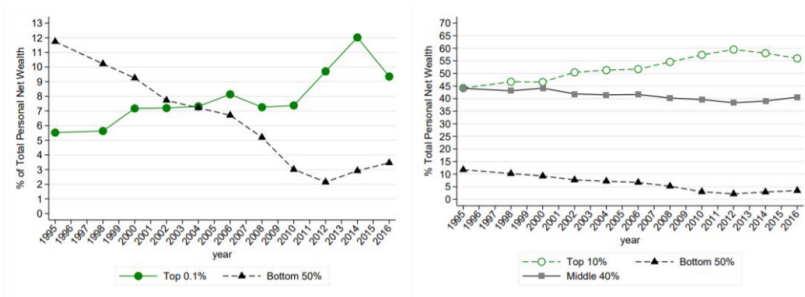
Who owns wealth? (II)



World Inequality Report (2022)

When? Evolution of wealth inequality in Italy

Figure 1: The inversion of fortunes between 1995 and 2016



(a) Top 0.1% and bottom 50% shares

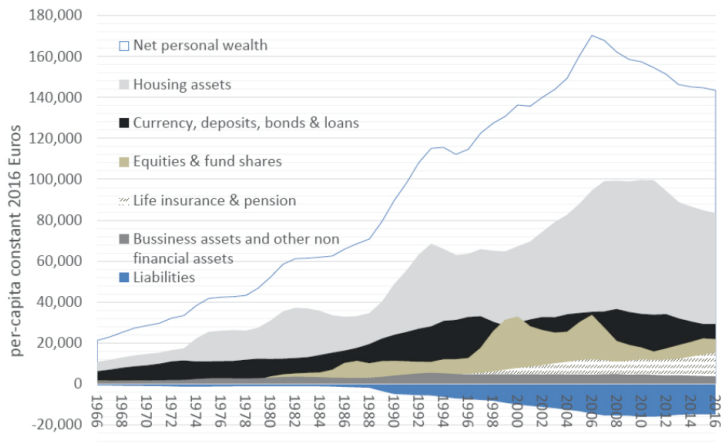
(b) Top 10%, Middle 40%, and Bottom 50% shares

Note: The graphs show the shares of total personal net wealth accrued by the bottom 50% of the adult population (25 million individuals in 2016) ranked by total net wealth holdings, the richest 0.1% (50,000 individuals), the top 10%, the middle 40%, and the bottom 50%, benchmark definition.

Acciari et al. (2024)

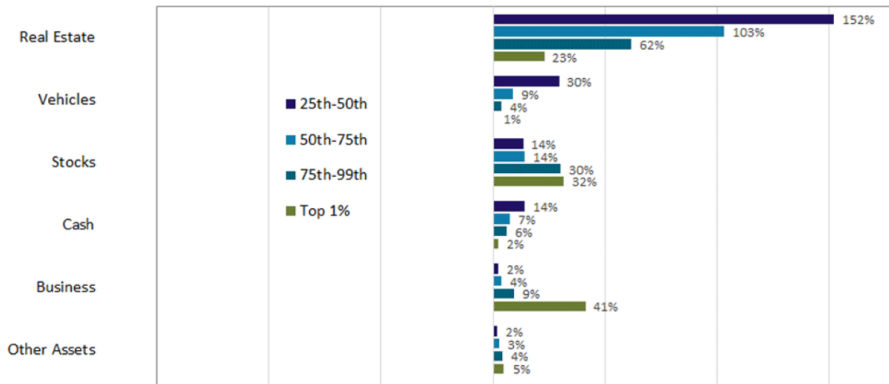
When + How? Wealth Composition in Italy

Figure 2 Private per capita wealth and indebtedness, Italy



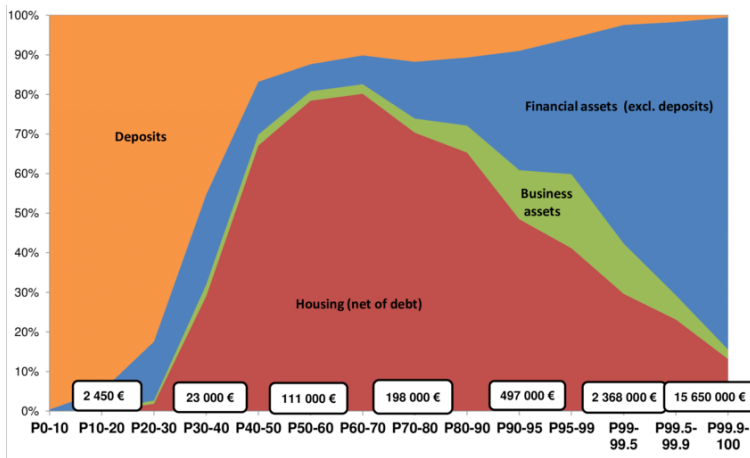
Acciari et al. (2024)

How are assets distributed in the US?



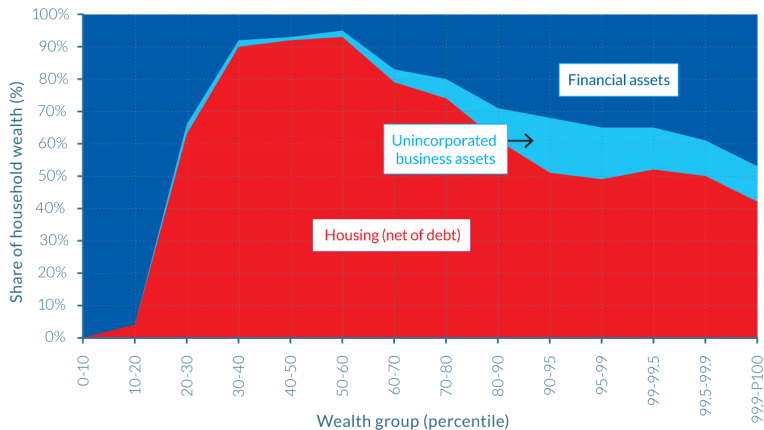
Federal Reserve of Richmond (2022)

How are assets distributed in France?



Garbinti et al. (2018)

How are assets distributed in Spain?



Source: Martínez-Toledano (2017). See wir2018.wid.world/methodology.html for data series and notes.

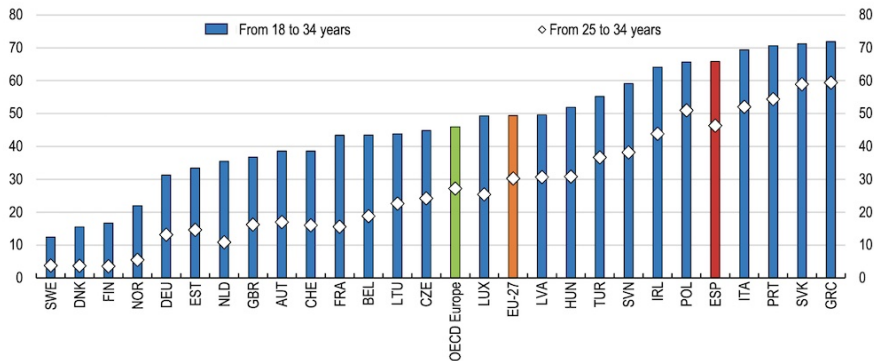
In 2013, 93% of the household wealth of the 5th decile (p50-p60) was composed of housing assets (net of debt).

Martínez-Toledano (2017)

Housing in Spain. Why should **you** care?

Figure 2.29. Share of young adults living with their parents

%, 2022 or latest year



Source: Eurostat.

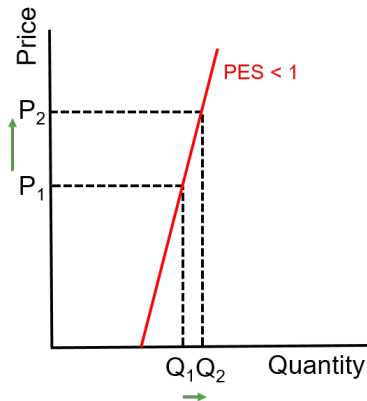
Today we are **not** talking about:

- ▶ Renting platforms.
- ▶ Private investment funds.
- ▶ Geographical and other spatial disparities.
- ▶ Regional / Political differences.
- ▶ Interactions with investment decisions.
- ▶ Inheritances.
- ▶ (...)

Why is housing so important in contemporaneous societies?

- ▶ Main asset for most households.
- ▶ Project of life: saving and labor market decisions are made when young (soon). How much debt is accumulated? When to have children? Live in your hometown, try other places?
- ▶ Housing prices condition neighbors where we live. This implies schools for the kids, parks (and friends), music and dance schools, social relations...

Side note: supply of (new) housing is pretty inelastic.



But supply of (second-hand) housing is very elastic, in housing and renting markets. Even more than the housing demand!

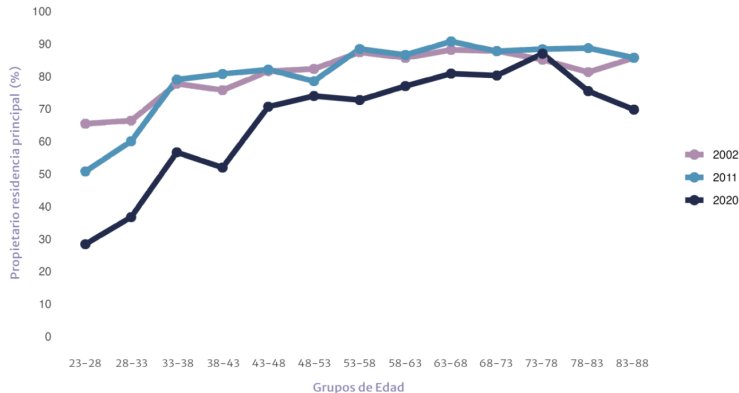
Some context: Brief notes on Spanish housing market

- ▶ Francoist regime of property: society of "propertarians", not "proletarians" (1950s-1970s).
- ▶ After democracy was restored, huge investment in public housing (late 1970s).
- ▶ Public housing could be sold in the private market after a few years. This implied a subsidization of the middle class (1980s-1990s).
- ▶ Real estate boom between 1998-2007. Rising prices and high household debt levels.
- ▶ Great Recession. Bubble bust, prices fall. Employment instability, especially for young families (2008 - now).

Evolution of main residence ownership in Spain by age group

Gráfico 5.

Proporción de propietarios de su residencia principal por grupos de edad

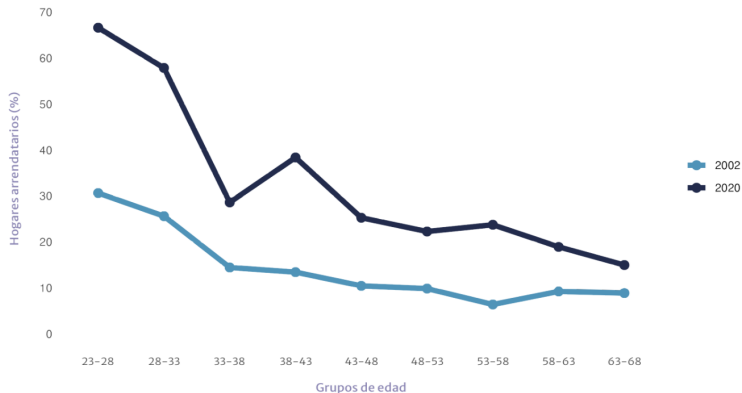


FUTLAB (2023)

Evolution of renting in Spain by age group

Gráfico 3.

Porcentaje de hogares arrendatarios por grupos de edad



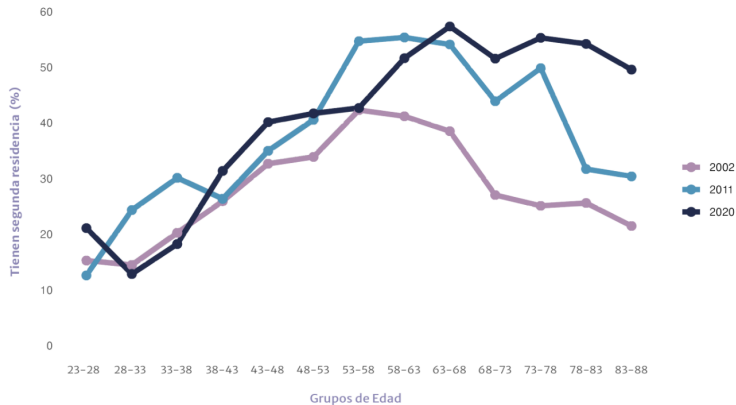
Fuente: elaboración propia con datos de la Encuesta Financiera de las Familias (2002-2020).

FUTLAB (2023)

Evolution of secondary residence ownership in Spain by age group

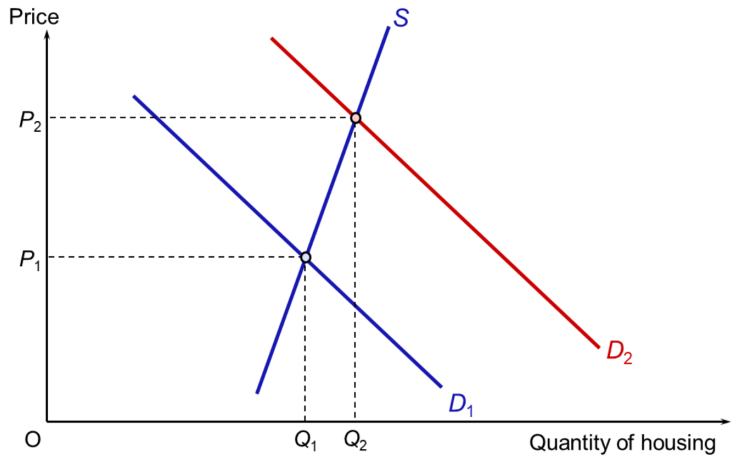
Gráfico 6.

Proporción de hogares con segunda residencia por grupos de edad



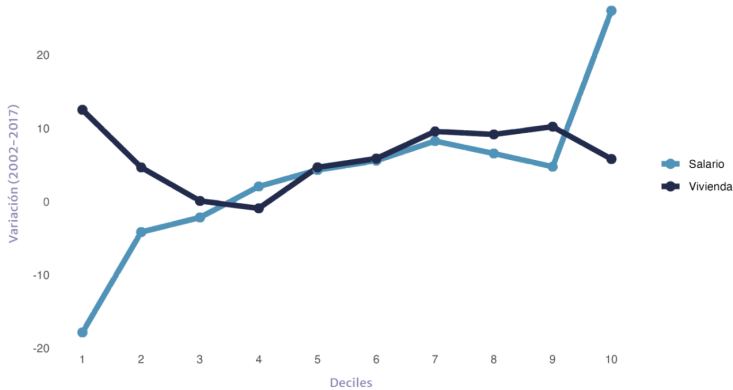
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Side note: what is happening in the market?



Affordability crisis

Gráfico 8.
Variación por deciles de salario y vivienda (2002–2017)



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What does it all mean?

- ▶ Housing is protected by the Spanish Constitution.
- ▶ Housing (real estate) is **wealth**. Its role as commodity has dominated over public/social use.
- ▶ This implies an intergenerational transmission of resources from younger to older households and private funds.

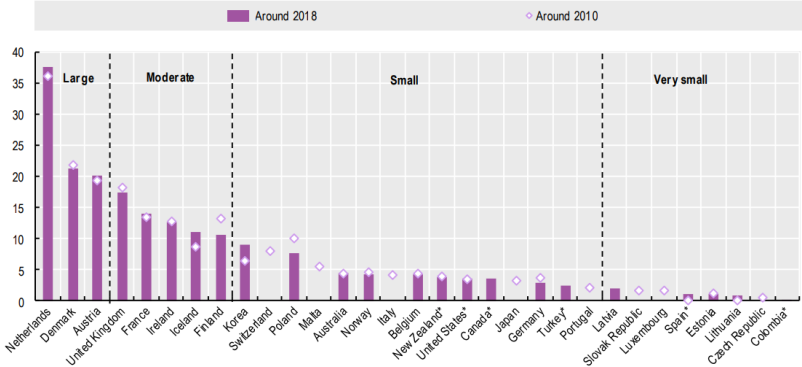
One can only wonder:

- ▶ Should all wealth resources be equally traded?
- ▶ Should the "investment" use of housing prevail over the consumption use?

Some solutions: Increase supply of public housing

Figure 1.1. The size of the social housing stock varies considerably across countries

Social rental dwellings, % of the total housing stock in selected years (2010, 2018)

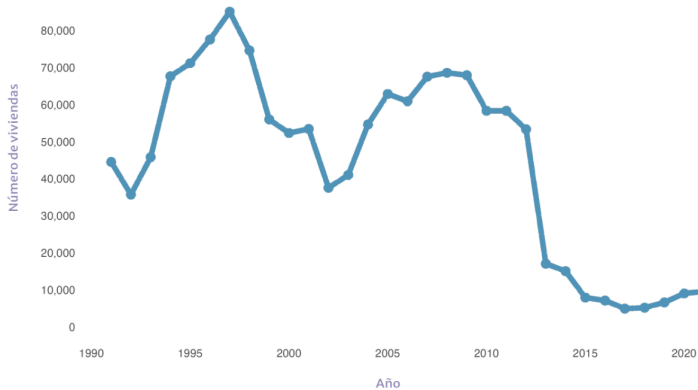


OECD (2022)

Public housing in Spain

Gráfico 2.

Viviendas de protección oficial (VPO)



Fuente: elaboración propia con datos del Ministerio de Transportes, Movilidad y Agenda Urbana.

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Feijóo ironiza que es “el milagro de los panes y los pisos”, después de que el Gobierno ya hubiera comprometido otros 100.000 inmuebles para alquileres asequibles tras aprobar la ley de vivienda con la limitación de precios al alquiler

eldiario.es, 25/04/2023.

Some solutions: Rent price regulation

Pros:

- ▶ Capped prices may help reducing prices (see Jofre-Monseny et al. (2023) on 2020 Catalunya rent reform).
- ▶ Once set, quick effect.

Cons:

- ▶ If appropriate incentives are not considered, may end up reducing the supply of rent housing.
- ▶ Considering the situation, this seems rather unlikely.

Current regulation: risings are capped (prices up to max 3% after renewal).

To sum up:

- ▶ Wealth is one of the (most) dominant dimensions to approximate social status, and to explain life chances and overall well-being.
- ▶ Despite declining trends a few decades ago, wealth inequality is rising in some Western economies.
- ▶ Housing is the fundamental asset in most households. Its unequal distribution reflects strong underlying deficiencies.
- ▶ Housing prices are subject to the laws of the markets, but they also have a deep social meaning.
- ▶ My take: Housing is not for profiting. Housing is for living.

Thanks so much!

Happy to chat further!

Email: p.salas-rojo@lse.ac.uk

Twitter: [@pslrojo](https://twitter.com/pslrojo)

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