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**The pattern of home ownership across cohorts and its impact on  
the net wealth distribution: Empirical evidence from Germany and  
the US**

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IARIW 34<sup>th</sup> General Conference  
Dresden, Germany  
August 21-26, 2016

# Summary of paper



Topic:

The relation between home ownership rates and wealth distribution, both in general and across cohorts or age groups.

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## General background

It is generally agreed that high home ownership rates correlate with low wealth inequality, but the age group or cohort dimension of this has not been much examined.

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## German context

1: Wealth distribution is very unequal amongst renters (Gini = 0.80), and far less unequal amongst owners with mortgages (Gini = 0.54) and without mortgages (Gini = 0.47). This pattern also holds within age groups.

2: Home ownership rates are low in general; home ownership starts late; home ownership decreases in old age.

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## Method of analysis:

Reweighting the German wealth data using US home ownership data in a single cross-sectional data set from 2010. This is performed using three tenure types: renters, owners with mortgages and owners without mortgages; and three age groups: under-35, 35 to 64, and 65 and over.

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## Findings (1)

German wealth inequality decreases substantially (down by 11% from Gini 0.71 to 0.63) with a counterfactual increase in the rate of home ownership. This decrease is strongest within the older age group (down by 13% from Gini 0.65 to 0.56).

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## Findings (2)

Changing the ownership rate is very largely what decreases wealth inequality, not changing the ownership-cohort structure (ie, the pattern of ownership across age groups).

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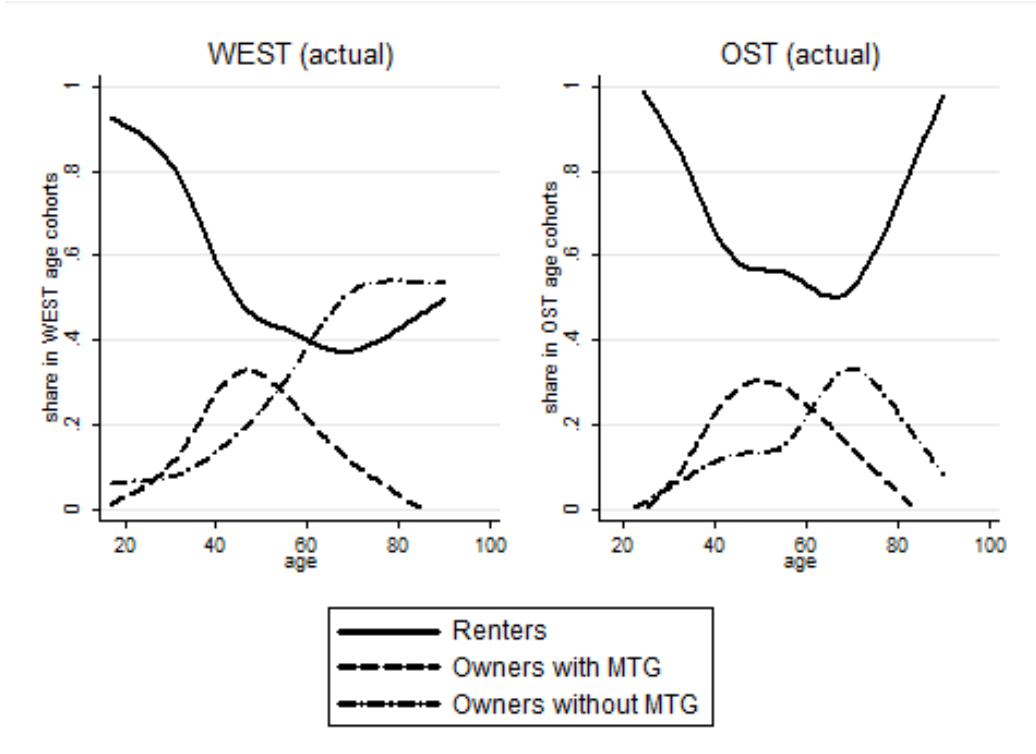


## Findings (3)

There is a distinctive cohort effect discernible in the counterfactual German age group wealth distribution data. The specific German history of war, division and reunion is still evident in the renting behaviour of today's older generation.



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Policy implications:

Encouraging home ownership amongst the young might in the long run reduce the currently high rate of German wealth inequality.

## Critical comment



Wealth inequality decreases after reweighting by 7% for under-35 households, by 11% for 35-64 households, and by 13% for 65+ households. The oddity here is the young age group, not the old age group. The middle and old age groups differ very little. So the exercise of showing that the elderly do not much influence the reweighted overall distribution structure is – though persuasive -- not of much value.

# Discussion points



1. Whether the rise in median and mean wealth after reweighting might affect the wealth distribution findings.

# Discussion points



2. Whether the reweighting of the wealth data might have consequences for income inequality or for consumption inequality.

# Discussion points



3. How the life-cycle hypothesis contributes to the analysis.

# Discussion points



4. How a cross-national approach might be relevant to the problem.

# Discussion points



5. Why home ownership decreases wealth inequality.



# Conclusion



1. This is an interesting exercise methodologically, one I am not technically competent to judge.
2. Given that proviso, the reweighting exercise is successful and informative, strengthening our understanding of the positive home ownership / wealth distribution relationship, but only if we can be sure that there are no side-effects on income and consumption inequality.
3. The cohort / age group analysis brings out specific features of the German case successfully, though the interpretation seems to me subject to my critical comment above: I don't see much difference between the elderly and the middle cohorts.