

IARIW2016, Session 7E, Discussant comments

Trends in Household Wealth-Adjusted  
Income in Australia  
by  
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# Outline: summary, then comments

## 1. Summary:

- What and Why?
  - Research question(s) and motivation(s)
- How?
  - Methods and data
- Findings?
- Implications?
  - Missing from paper

## 2. Comments

- Overall: interesting and stimulating ... but requires development

# Research questions & motivations

- There is value and interest in looking more comprehensive measures of economic well-being ('income')
  - **Wealth-adjusted income (WAI)**  
**= money income + annuitized value of net worth (ANW)**
- Incorporating flow-equivalent of a stock is a version of this idea
  - Cf. adding in value of benefits-in-kind, leisure or home production
- AUS evidence updated
  - Travers & Richardson (TR), OUP, 1993
- AUS evidence compared with USA
  - Wolff & Zacharias (WZ), JEI 2009

# Methods: different income definitions

## Final income (FI)

- $FI = \text{disposable income} + \text{benefits-in-kind} - \text{indirect taxes}$

## Wealth-adjusted final income (WAFI)

- $WAFI = FI - \text{money income from financial assets} + ANW$ 
  - avoiding double-counting

## Equivalised WAFI (EWAFI)

- $EWAFI = WAFI / \text{household equivalence scale rate}$

## Annualized net worth (ANW)

= (either, TR)  $r \times NW$  (fixed rate: 3%, 4%, 5%)

= (or, WZ) lifetime annuity rate = annuity such that exhaust  
NW at death

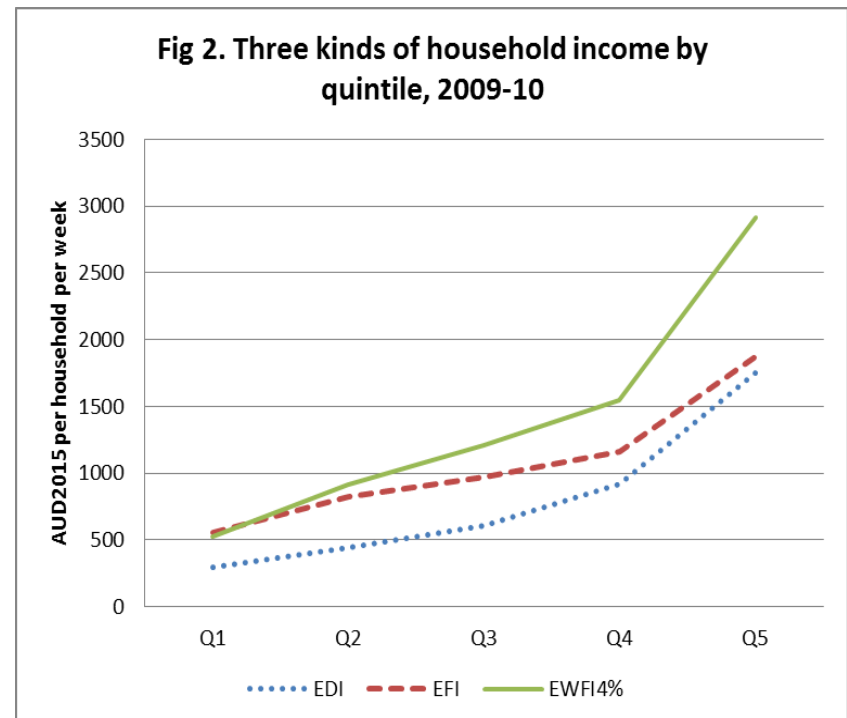
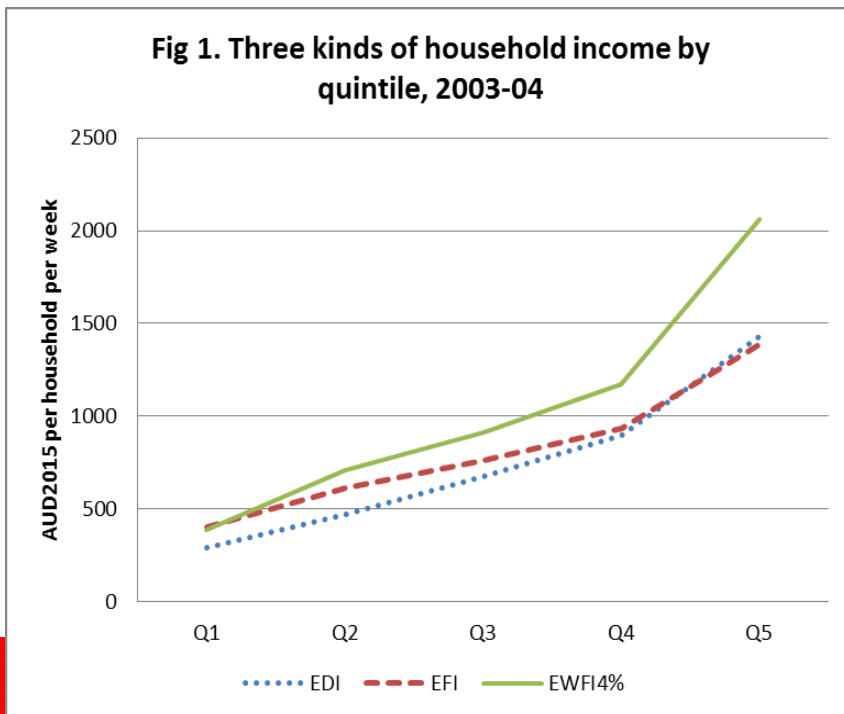
- depends on estimated years left to live! (Person-specific)
- WZ used narrower income definitions than FI, did not equalize, different treatment of home wealth

# Data

- ABS Household Expenditure Survey
- 2003/04 ( $n = 6957$ ) and 2009/10 ( $n = 9774$ )
- These are the “only ABS surveys that report household final income and net worth”
- $NW = \text{Assets} - \text{Liabilities}$ , where
- Assets: tangible and intangible fixed assets + financial assets (including superannuation account balances)
- Liabilities: mortgage debt, HP and other card debt, etc.

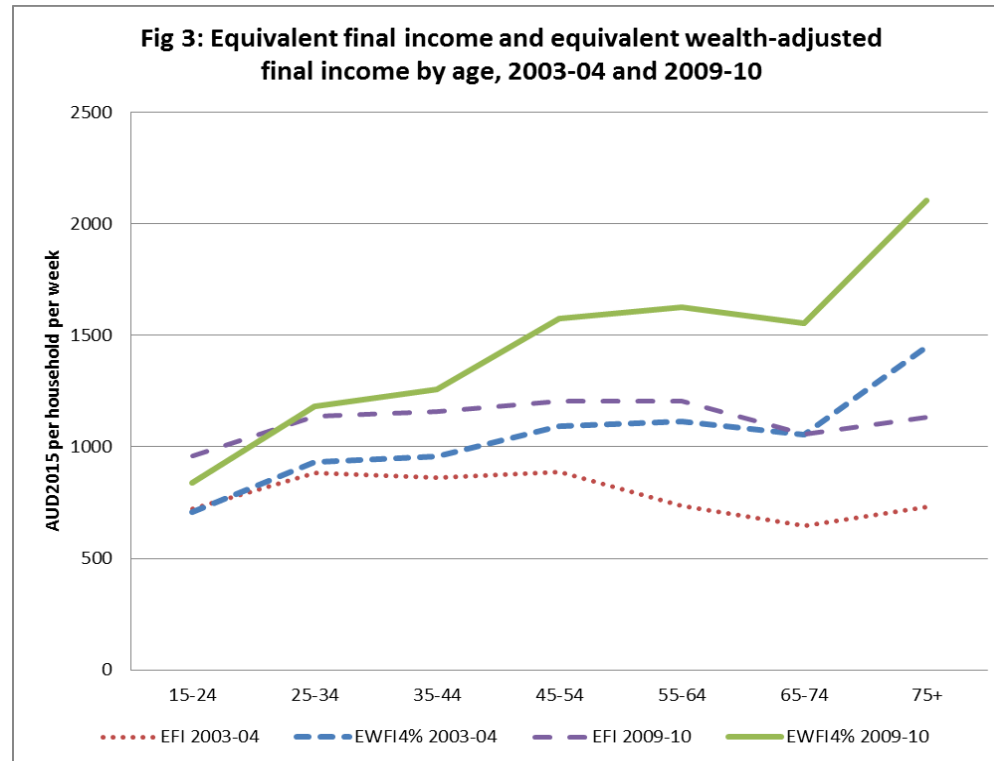
# Findings: (1) overall

1. Comparisons for DI, FI, NW, WAFI, EWAFI of means, quintile group shares, Gini
  - Tables 1, 2; Figs 1, 2
  - E.g. Means by q-groups (~ q-group shares in Table 1!)



# Findings: (2) breakdowns by age group

- EWAFI and EFI by age group
  - Means



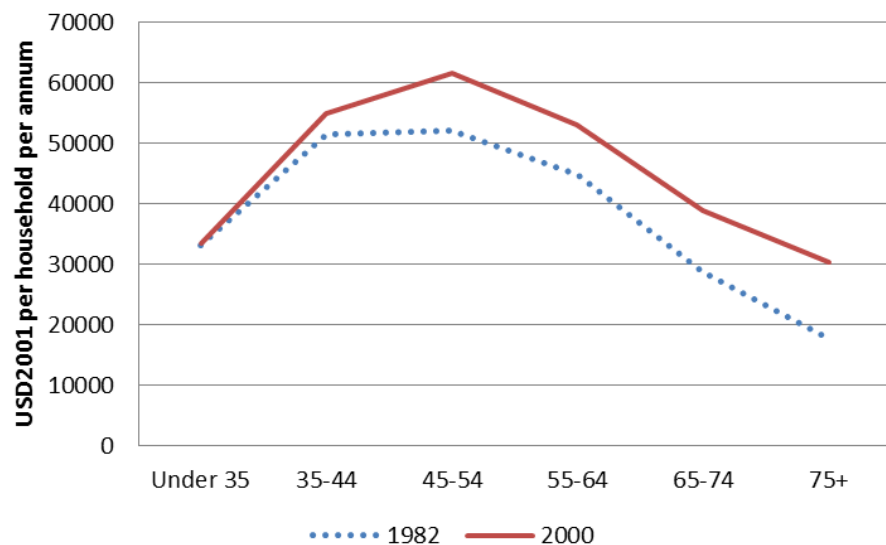
plus

- Gini became more equal among elderly groups
- Range of other comparisons, e.g. components of EFI by age (and role of benefits in kind)

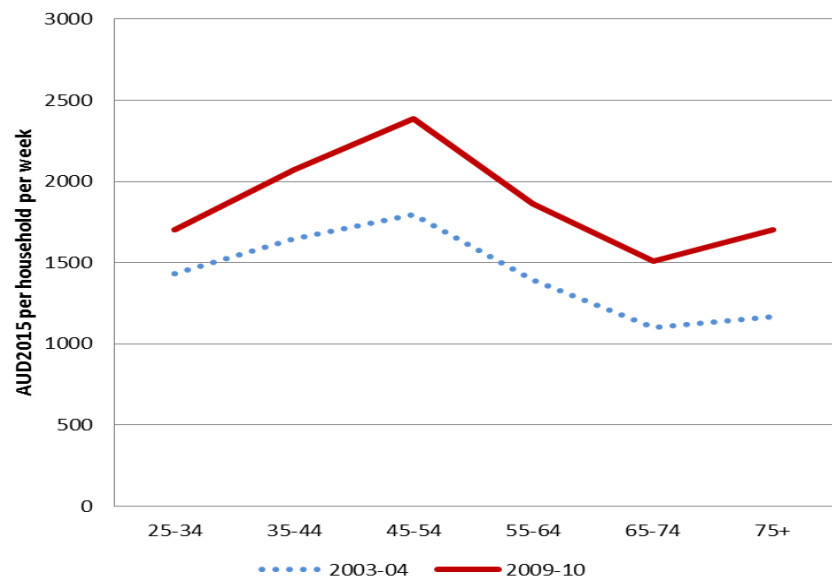
# Headline Findings (AUS-USA)

- Comparisons between AUS and USA bedevilled by lack of harmonisation of definitions, different years
- Broadly harmonised data leads to similar age-related patterns [?]

**Fig 4: Wealth-adjusted household income by age, America, 1982 and 2000**



**Fig 5: Wealth-adjusted disposable income (non-equivalised) by age, 2003-04 and 2009-10**





# Tighten up the RQ and motivation

- More than simply re-doing TR and especially WZ?
- New methods?
  - Not really? Minor variations, and don't make a big difference
- Different picture of the distribution of economic well-being in AUS?
  - Not really? No real surprises, e.g. hump-shaped relationship with age
- Different picture about trends over time in AUS?
  - Not really? No AUS context provided, including no trends data using conventional OECD/'Canberra Group' type definitions (cf. Wilkins EcRec 2014)
- AUS differs from the USA?
  - Hard to draw detailed conclusions using existing materials
- Interest in more comprehensive income definitions in general or wealth-adjustment per se? Paper mixes these (part 2)

# Importance of housing (home wealth)

- Needs more detailed attention
- Very important in AUS (can't see from Table 1 since only shows *net* value)
- How much is it driving things? Or is it other components?
  - NB a decomposition by income sources analysis à la WZ is missing here
- Clarification please (page 4)!
  - ZW: flow from home wealth = “imputed rent”
  - Authors: deduct imputed rent from FI, and treat full value of housing as an asset to be annuitized
  - But fixed rate annuity method is one way in which researchers have done imputed rent estimation, so just capturing difference between this and how ABS does it (which is??)

# Conceptual: should we combine flows and stocks like this?

- Simply assumed here that we should
- But much of wealth not immediately fungible except maybe in lumps (think houses and pensions)
- Yes, wealth and income are important, but why not simply look at their joint distribution?
  - E.g. ‘transition matrices’ summarising fraction at top (or bottom) of both income and NW distributions; or fractions who are “asset rich but cash poor”
  - Fisher, Johnson, Smeeding, Thompson: IARIW 2016
  - Jäntti, Sierminska, Van Kerm: REI forthcoming
- In any case, more information about marginal distributions as a whole, e.g. density comparisons

# Tell us much more about data quality

- ABS household surveys notorious for changes in methodology over time: what about HES?
- Is “income” well measured in the HES, e.g. compared to (say) Survey of Income and Housing
- Many components of “final income” are estimated
  - Imputed rental income from owner-occupation
  - Benefits in kind (education, health services, ...)
  - Indirect taxes
- How is “remaining life years” estimated? Reliable?
- Why not use HILDA?
  - Has more NW data: 2002(4)2014
  - Does it really matter that has DI not FI?
  - Consistent definitions over time (Wilkins EconRec 2014)

## Assorted clarifications required

- Income is “per household per week”: hh is sharing-unit, but what is the unit of analysis?
- Equivalence scale used – what is it?
- Should the same equivalence scale rates be applied to DI, FI, and WAFI totals?
  - Implausible that there are the same economies of scale in each of the components added in going to the next broader definition?

# Think more about policy implications

[Related to remarks about RQ and motivations]

- Are there any policy implications, including for ABS?
- Related literature: asset tests in addition to income tests for assessing benefit and programme eligibility
- Related literature: whether to incorporate imputed rental income in ‘official’ income measures, including how to deal with ‘asset rich, cash poor’ households (mainly elderly)
  - Sauli, H. and Tömälehto, V.-M. (2010). ‘The distributional impact of imputed rent’, Chapter 7 in A. B Atkinson. and E. Marlier (eds), *Income and Living Conditions in Europe*. Luxembourg: Eurostat, 155–178.  
<http://ec.europa.eu/eurostat/documents/3217494/5722557/KS-31-10-555-EN.PDF>