WEALTH INEQUALITY IN POLITICAL PERSPECTIVE

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1. WHAT IS WEALTH INEQUALITY?

2. WEALTH INEQUALITY IN THE 1ST DIMENSION - REDISTRIBUTION

3. WEALTH INEQUALITY IN THE 2ND DIMENSION - POPULISM

WHAT IS WEALTH INEQUALITY?

Inequality in the STOCK of assets people have as opposed to their FLOW of income.

Can come from productive capital (investments) and non-productive capital (residential housing).

Sometimes has to be viewed as FUTURE claims on income - best example is pensions.

Much more unequally distributed than income and often in surprising ways.

WEALTH vs INCOME

Standard cross-national income inequality patterns do not hold up with wealth.

Denmark is most unequal!

Wealth Distribution, Selected Countries (2016)				
Country	Gini	Top 10%	Top 5%	Top 1%
Denmark	89.3	73.21	56.83	31.15
United States	86.2	77.58	66.46	42.08
Sweden	83.2	72.62	59.50	35.94
Ireland	80.0	62.47	49.13	28.04
Norway	79.8	60.15	47.65	27.37
Germany	78.9	64.87	52.34	31.49
Austria	78.5	65.05	52.07	29.53
Finland	76.6	62.81	50.90	30.98
Netherlands	74.3	56.46	43.89	24.39
Canada	73.2	57.78	45.31	25.56
UK	73.2	56.57	43.74	23.93
Switzerland	72.1	56.52	44.11	24.77
France	72.0	56.43	44.12	24.81
Portugal	71.3	58.61	47.21	28.01
New Zealand	69.1	53.31	39.50	19.77
Italy	68.7	54.72	43.31	24.99
Australia	68.2	52.69	40.57	22.05
Spain	68.0	56.18	45.36	27.39
Greece	67.0	53.95	42.47	24.34
Belgium	64.1	48.15	35.86	17.93

Yellow Shading: "Liberal Market Economies"
Green Shading: "Coordinated Market Economies"
Source: Shorrocks (2016)

HOUSING & POLITICS

Why might housing be especially important for politics?

Mass ownership of 'capital'

But also massive differences in value of housing which have been amplified by housing booms and busts

Also forces us to think about age and place, as much as about incomes.

If an unproductive part of the economy matters so much for preferences what are macroeconomic consequences?
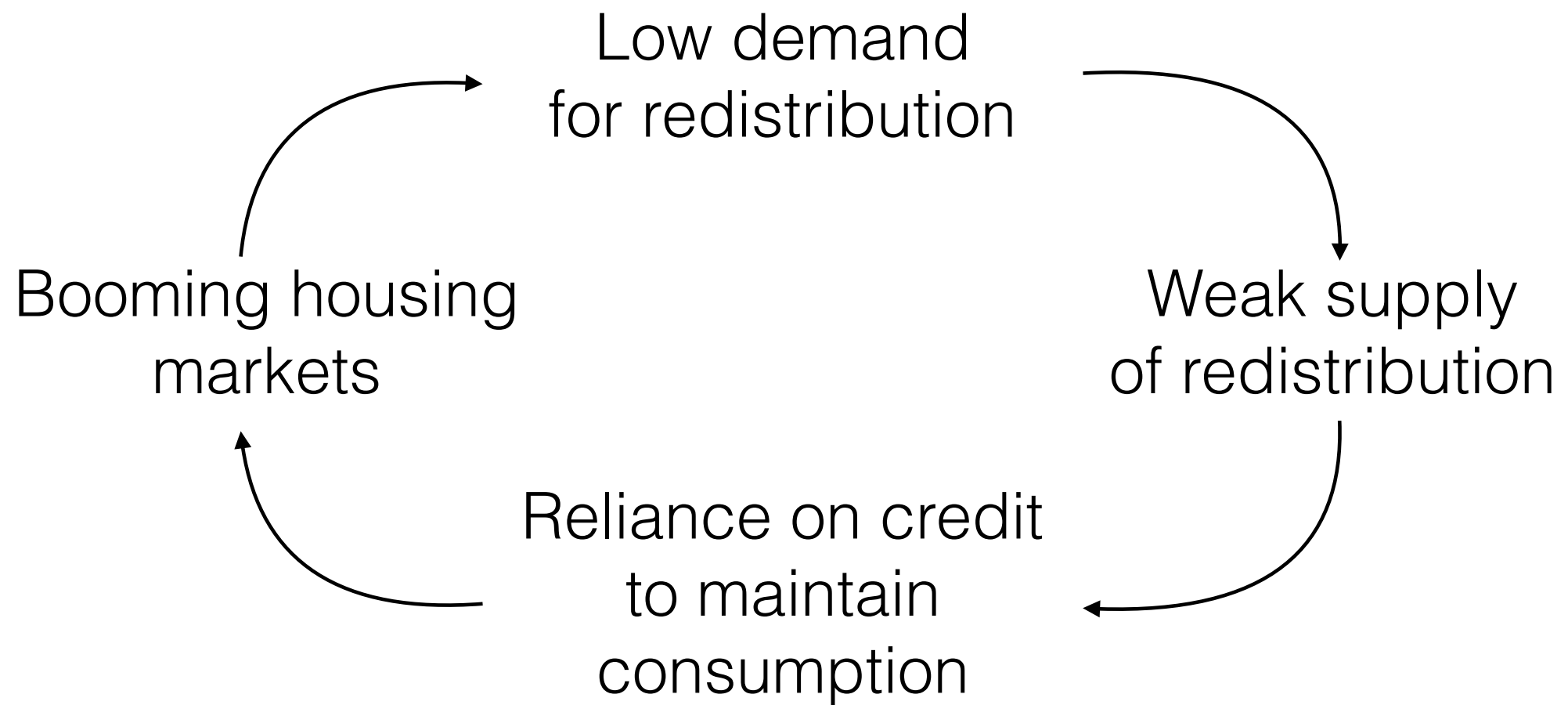
1ST DIMENSION POLITICS

Our standard hobbyhorse in Comparative Political Economy.

Generally we expect high-income people to desire lower taxes and spending than do low-income people.

Does this work the same way for wealth? And how would we distinguish this from income.

How is distribution of wealth produced and how does this vary across contexts?

ANTI-REDISTRIBUTION CYCLE

Low demand
for redistribution

Weak supply
of redistribution

Reliance on credit
to maintain
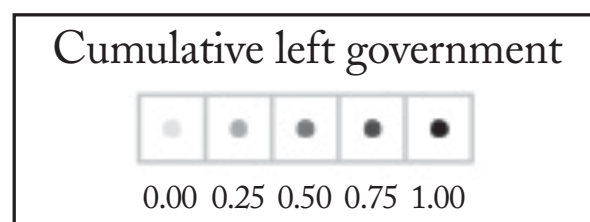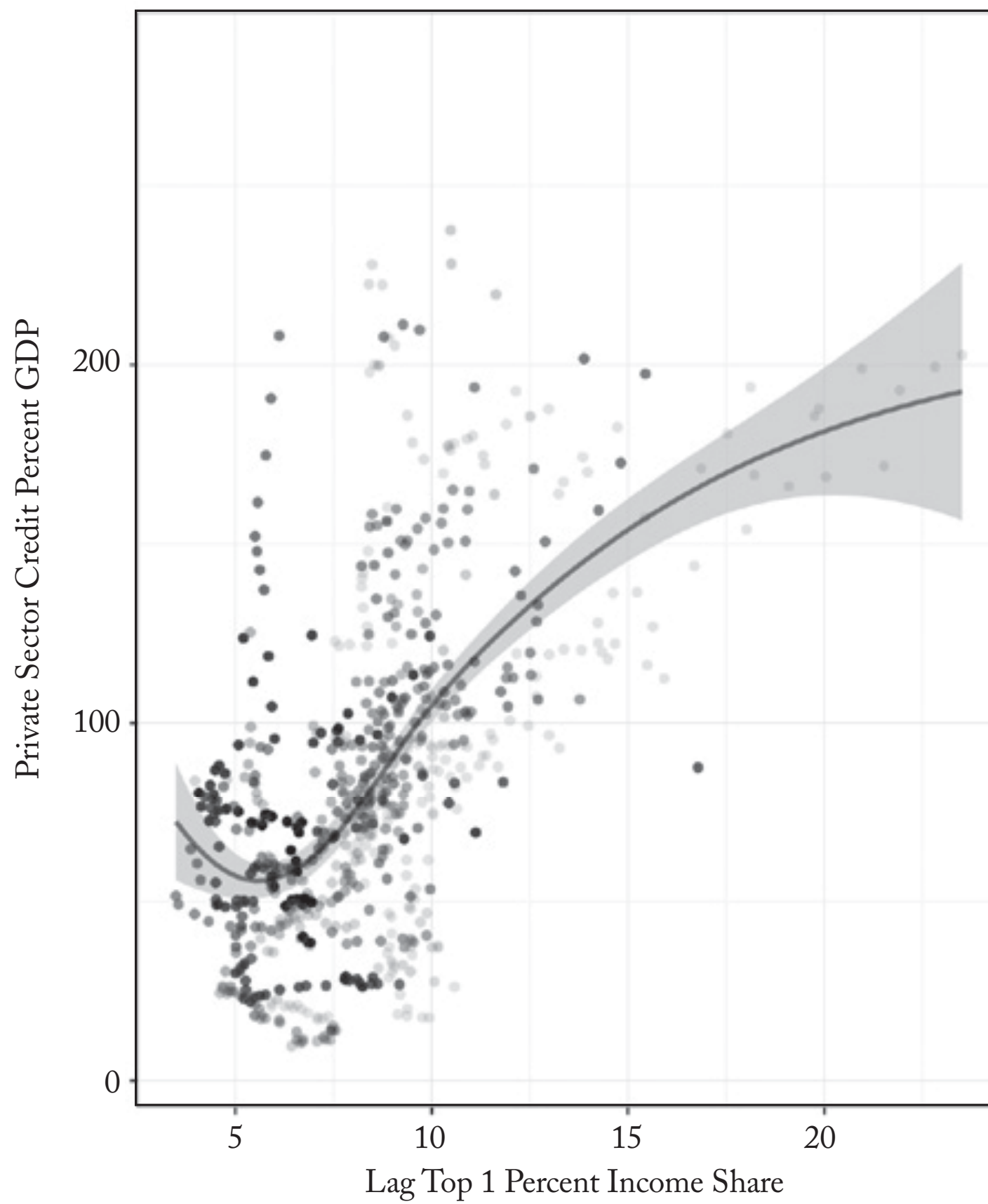consumption

Booming housing
markets

SUPPLY OF REDISTRIBUTION → HOUSING

Ahlquist and Ansell (2017) argues that positional consumption drives borrowing.

As income inequality rises it creates demand for borrowing to close positional gaps.

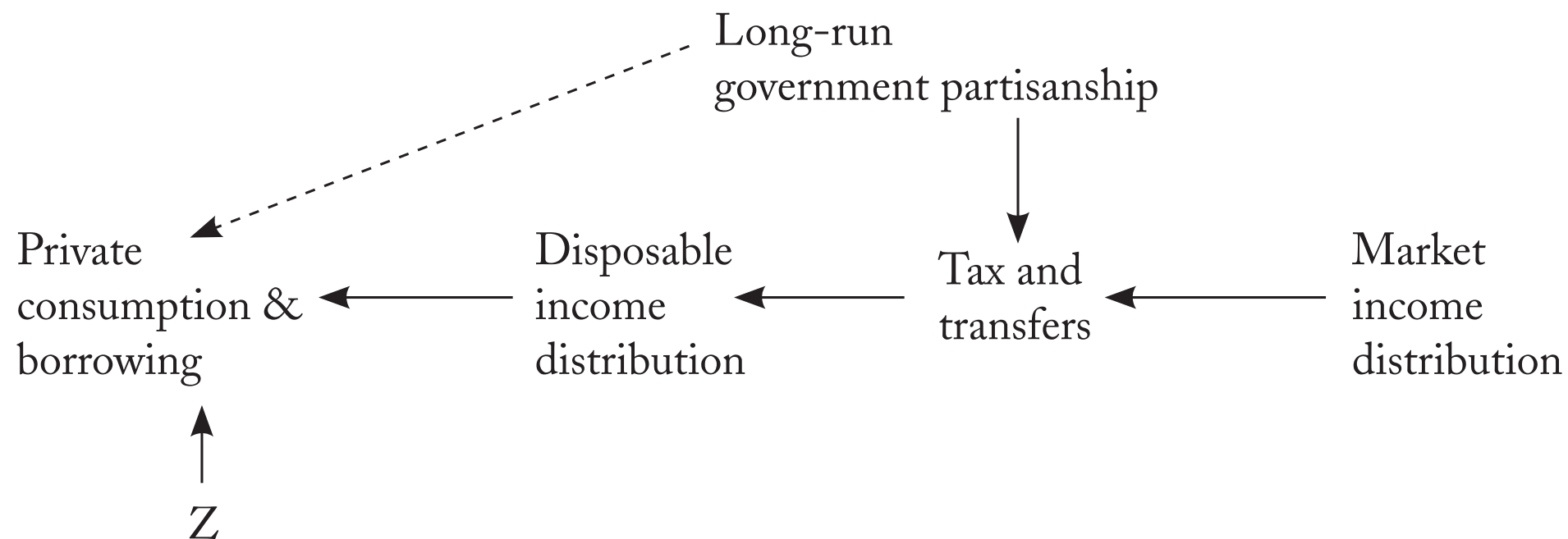Income inequality can then fuel wealth inequality.

THEORY

Model of positional consumption - my consumption choices depend on my income net of taxes *plus* the difference between my net income and that of rich.

Latter drives up consumption as inequality widens, which pushes down savings and increases borrowing.

But… higher taxes reduce gap in net incomes, reducing positional consumption effect of rising pre-fisc inequality.

But tax choices themselves are endogenous to inequality.

EMPIRICAL STRATEGY

Long-run
government partisanship

Private
consumption &
borrowing

Disposable
income
distribution

Tax and
transfers

Market
income
distribution

Z

Redistribution clearly endogenous to inequality.

Data on redistribution very scarce, problematic.

Electoral institutions and past partisan experiences established
  long before current redistribution; conceivably exogenous.

Following theory, use long-run left government as "quasi-
  instrument" for prevailing redistribution.

(a)

2001 Cumulative Left Government (Std.)
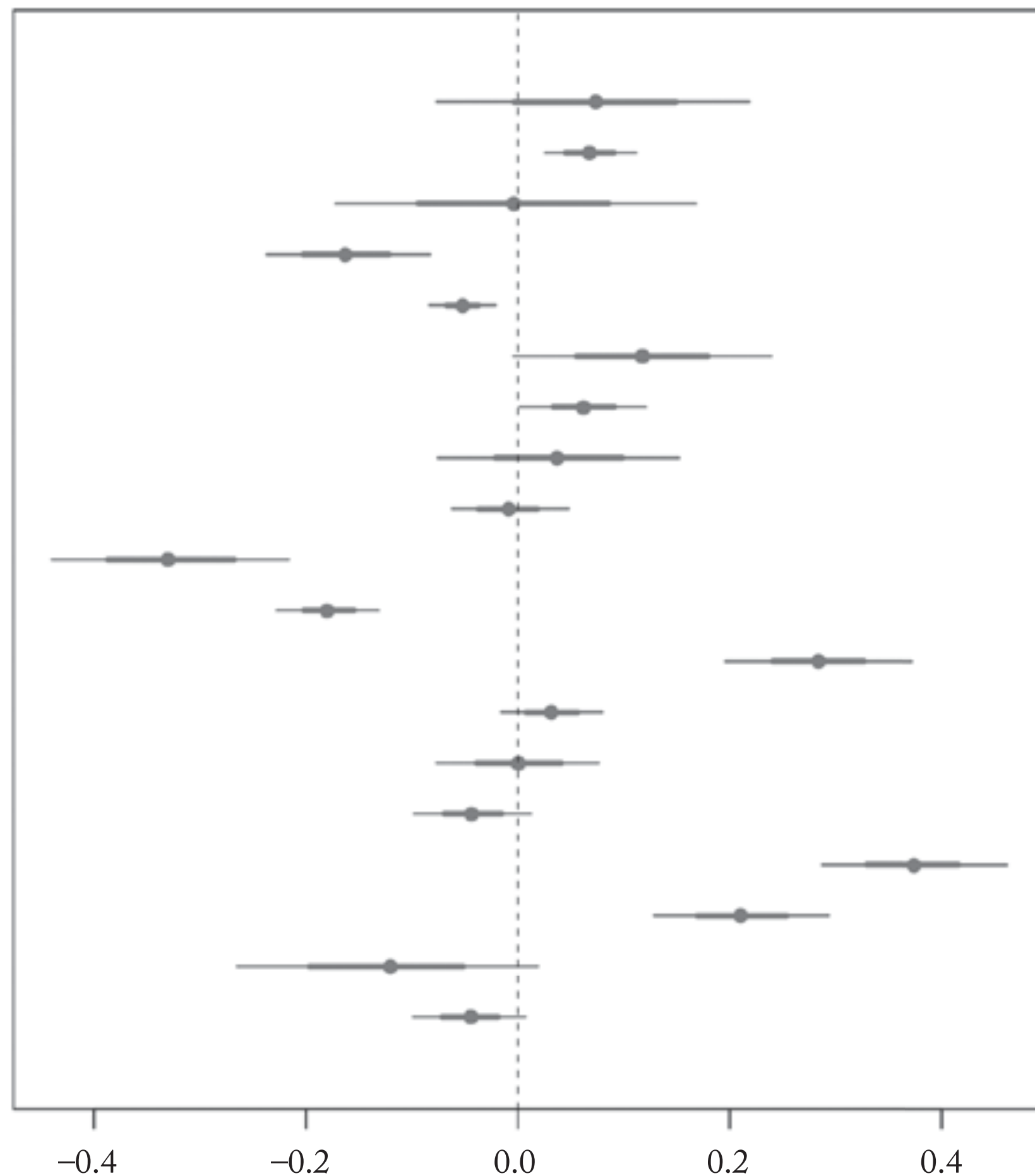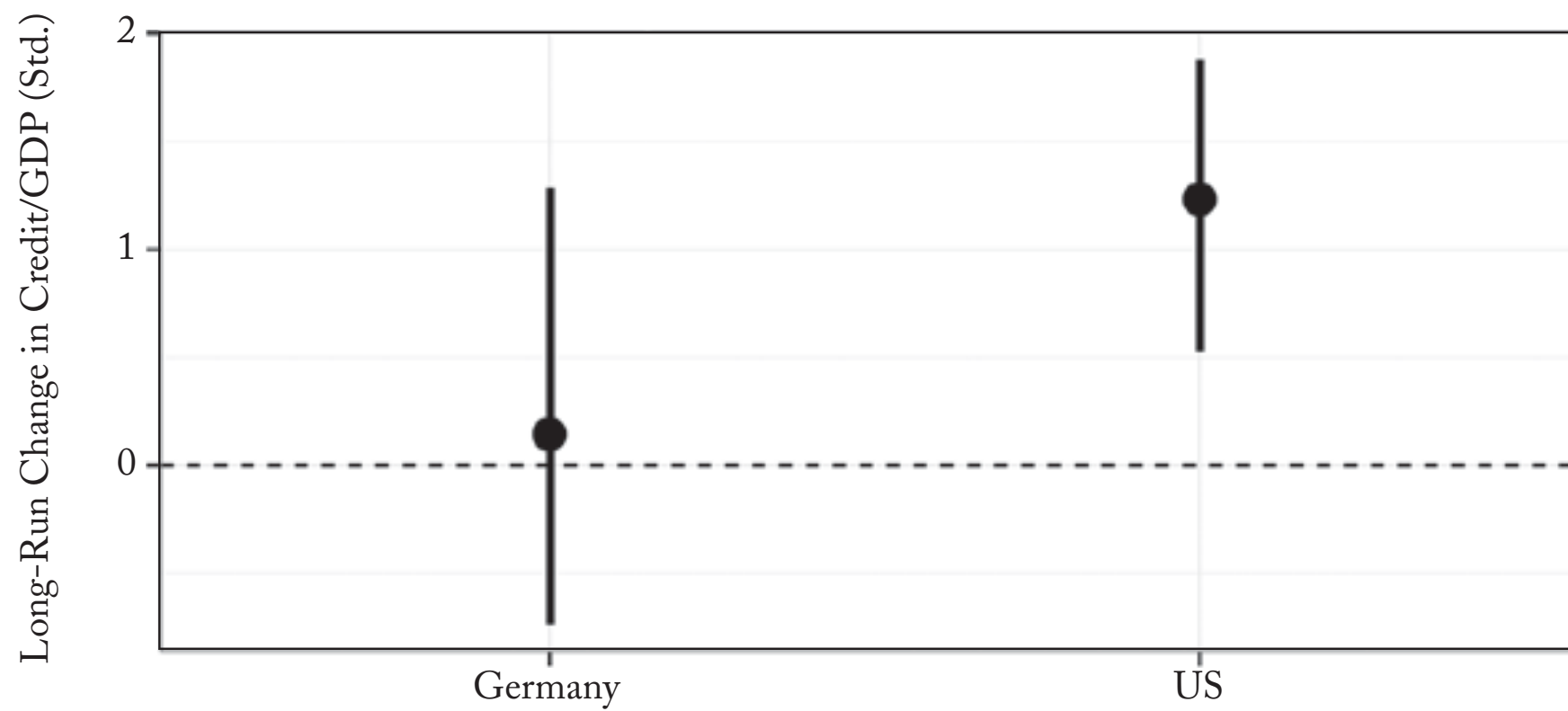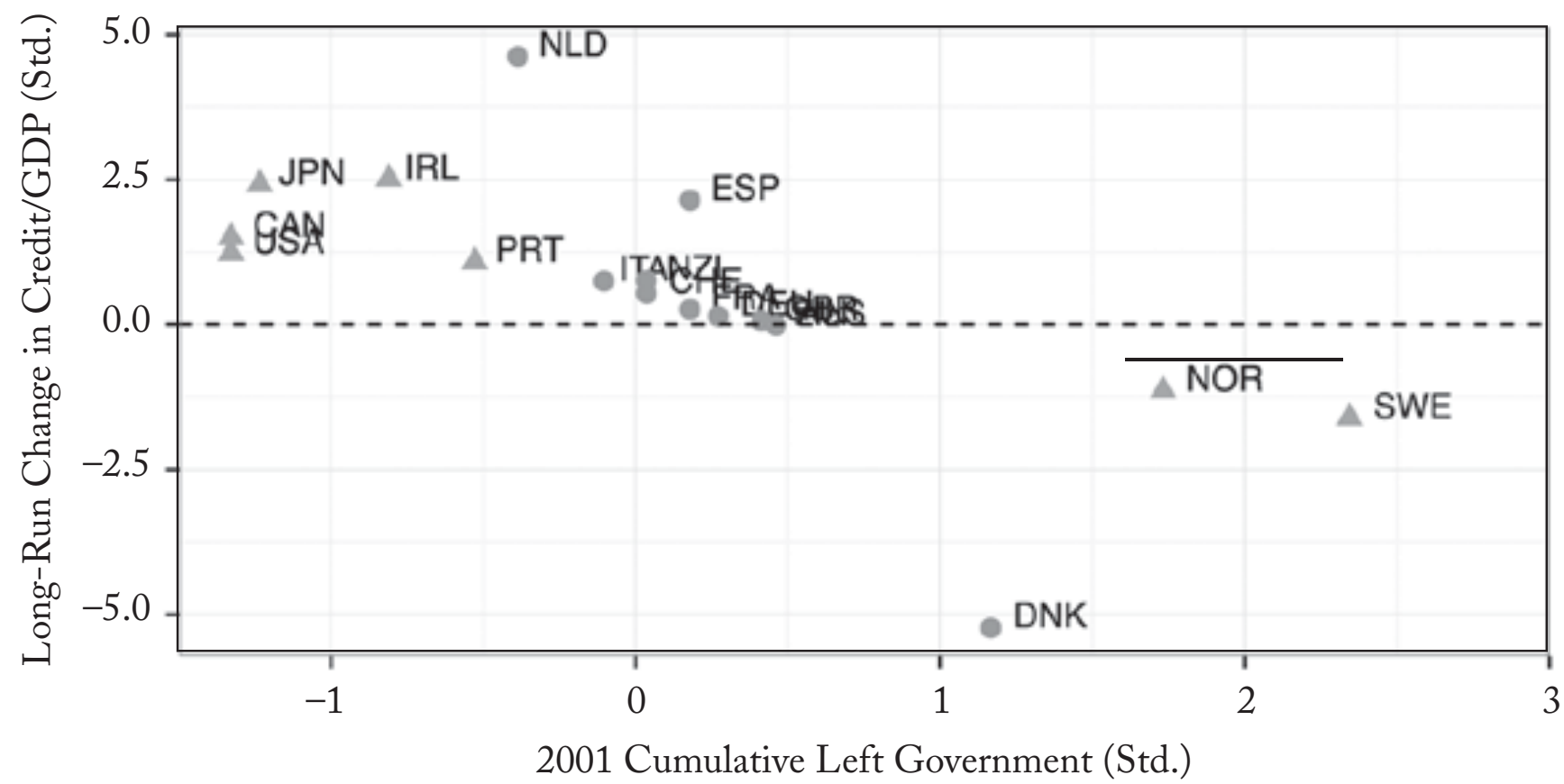
(b)

HOUSING → DEMAND FOR REDISTRIBUTION

Why do asset prices (especially but not only housing) affect individual preferences over public policies?

Although house values and individual income are typically related they need not be.

House price booms may be uncorrelated with both individual and aggregate labor market outcomes.

EFFECTS ON PREFERENCES

LOWER TAXES:
(a) Direct: land / property / inheritance / capital gains

(b) Indirect: adopt income tax preferences of high-income

LOWER SPENDING :
(a) Reduced eligibility for means-tested benefits

(b) Reduced willingness to pay taxes for spending

(c) Reduced demand for social insurance because of 'private insurance' of nest egg.

TYPES OF DATA

1. REGIONAL HOUSE PRICES: in many countries there is reliable contemporary data at a granular level on regional house prices. US has FHA data, UK has Land Registry. Allow apples to apples comparisons (though with limits).

2. INDIVIDUAL HOUSE PRICES: of course people don't buy a 'regional house'. Individual estimates tap into these important idiosyncrasies but rely on estimate's accuracy.

ANES PANEL RESULTS

Predicted Probabilities of Change in Social Security Preferences by House Price Change

	0%	10%	20%	30%
-2	0.1	0.2	0.3	0.4
-1	5.1	6.3	7.8	9.5
0	86.8	87.1	86.8	86.1
+1	7.9	6.4	5.1	4
+2	0.1	0	0	0

BHPS PANEL DATA

Panel dataset of 47,000 individuals from 1991 to 2006. Examine effects of both changes and levels in estimated housing values.

DV: Δ in (A) Support for Full Employment
        (B) Ideology Index

IV: Δ in self-estimate of house value in £10K

TECHNIQUES: (A) Ordered Probit
                (B) Error Correction Model
                (C) Permanent / Transitory Inc.

ISSP REDISTRIBUTION

Probability of Strongly Supporting Redistribution (y-axis)
House Equity Level (x-axis): Neg. Equity, Renters, Low Equity, Mid Equity, High Equity
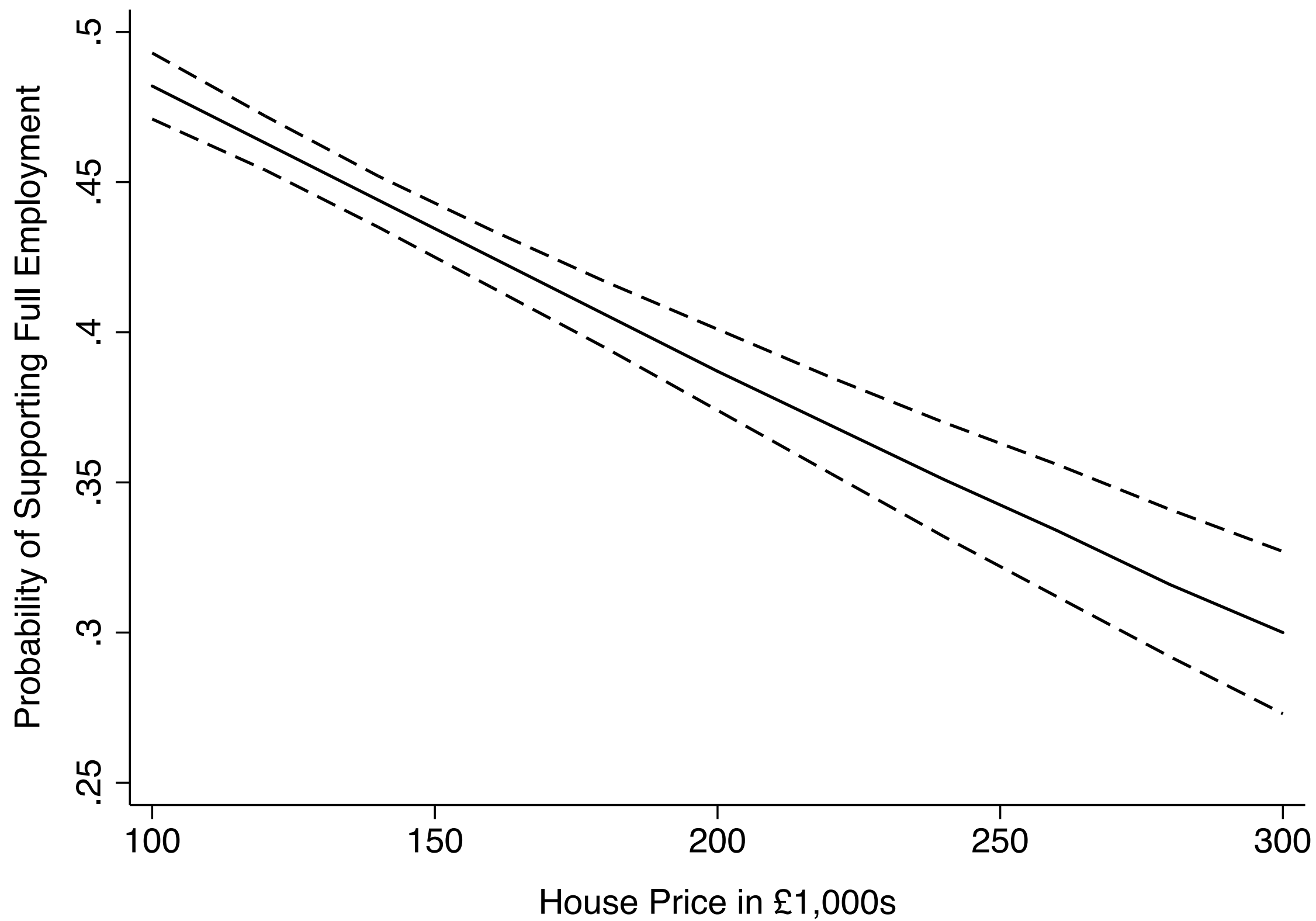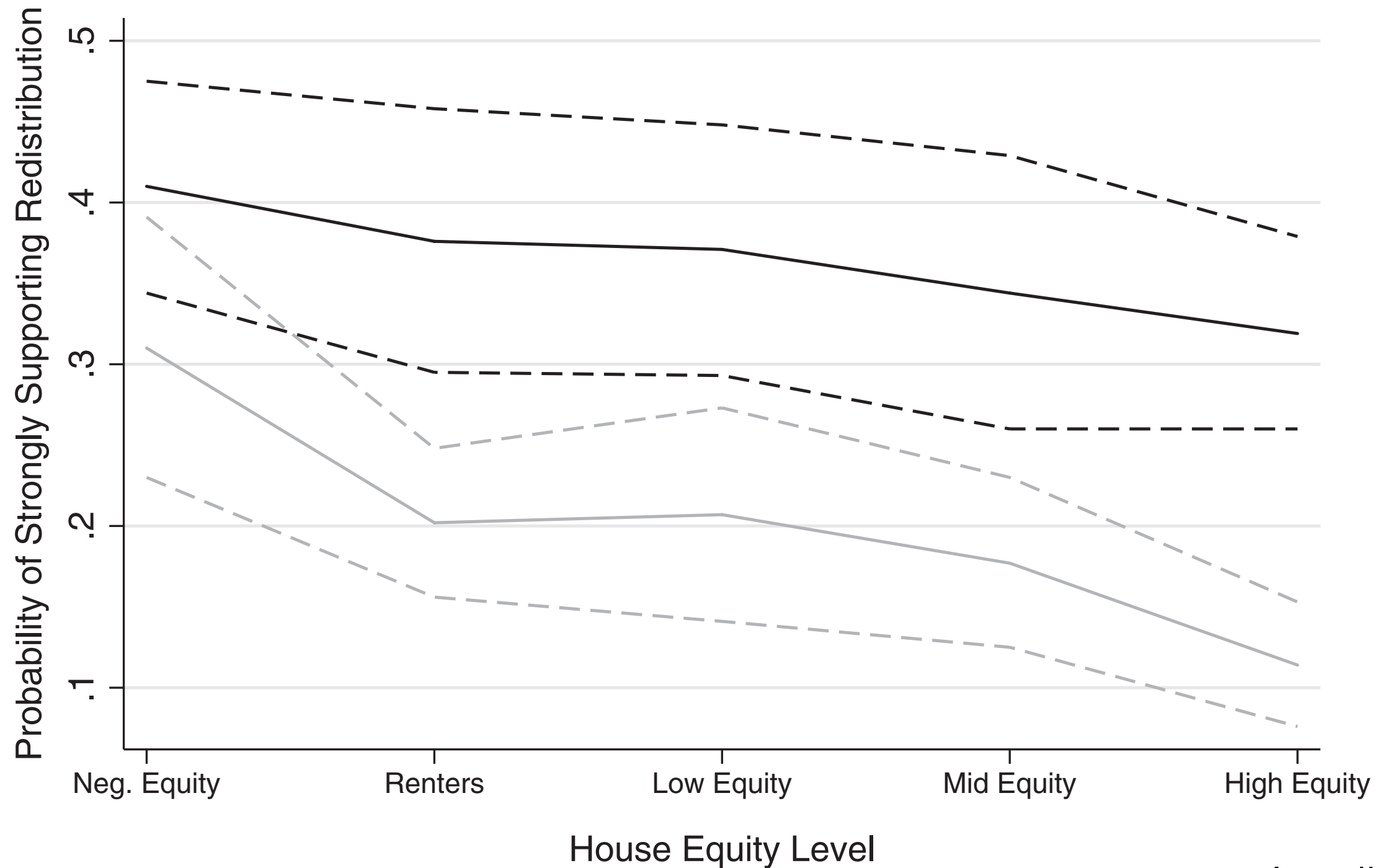
Ansell, 2014

Grey: Right Wing; Black: Non Right Wing

2ND DIMENSION POLITICS

The recent wave of elections suggests that economic class may be a less strong predictor of voting than before.

Many authors - e.g. Cas Mudde, Robert Ford - have argued this reflects value differences that are only loosely, or not at all, determined by the economy.

It expresses itself as values defined over 'group' and 'grid' rather than 'greed' (Kitschelt & Rehm).

What is connection to wealth and housing? PLACE

POPULISM

House prices provide a way of measuring the 'calculus of fortune' - where prospered and where resentment festers.

Long-lasting experiences shape world-views and outlooks on cosmopolitanism, diversity and globalization.

The housing boom and bust reinforced this by solidifying residential pattern - ever harder to move.

The base of populism becomes increasingly related to geography - captured by housing - as opposed to class.

BREXIT

TWO BRITAINS?

The Brexit vote was a bolt from the blue, even for those who were its advocates.

It exposed underlying divides across regions and demographics that cut across party lines.

David Goodhart has referred to the split as between 'Somewheres' and 'Anywheres' - highlights importance of *place*.

DATA

I use Land Registry data on the sales price for *every* real estate transaction in England / Wales since 1996.

Use (logged) median prices at the Local Authority District (50,000-250,000 people) and ward (5-10,000).

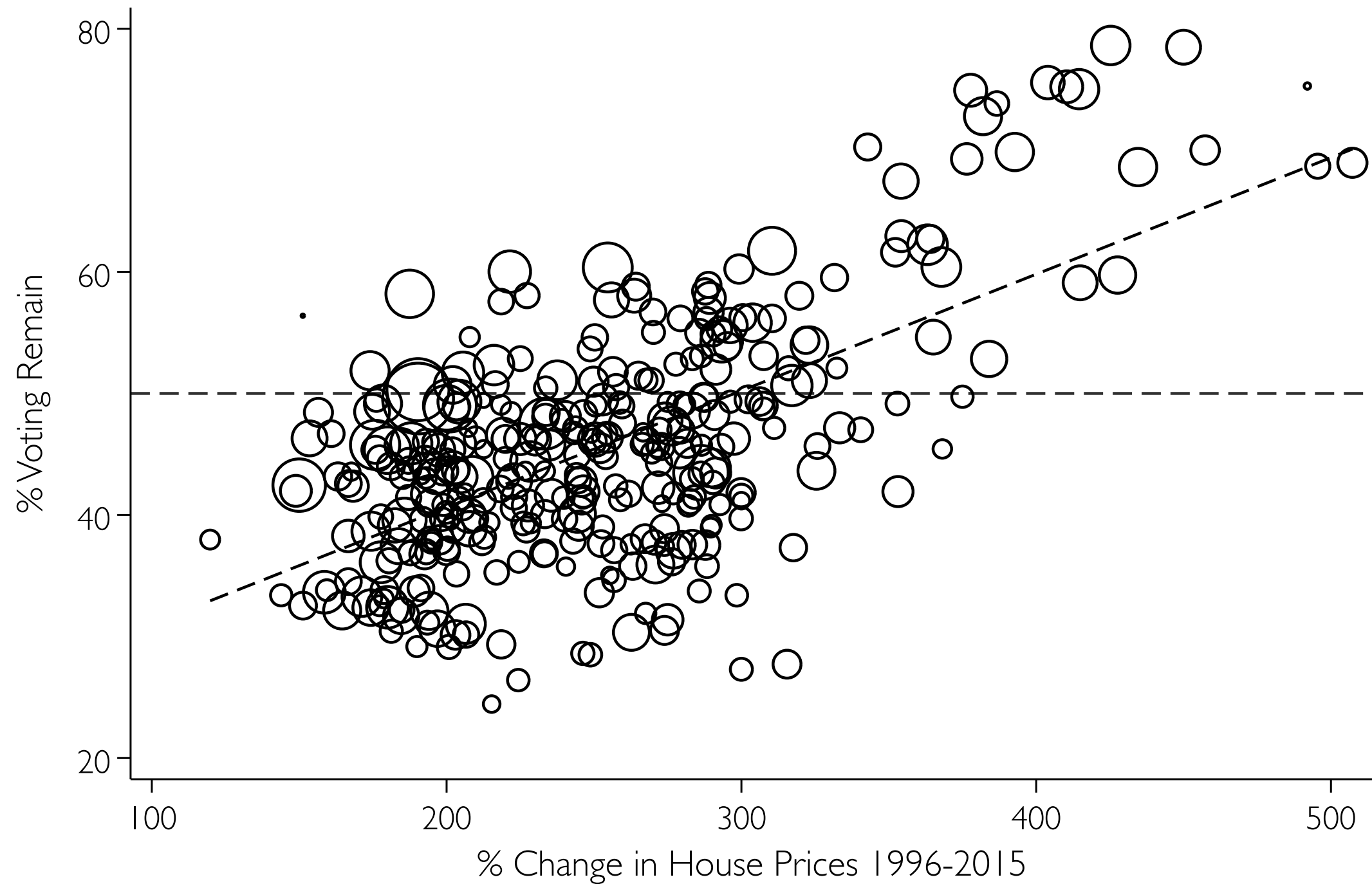Match to reported Remain vote at LAD. Also have subset of ward counts.
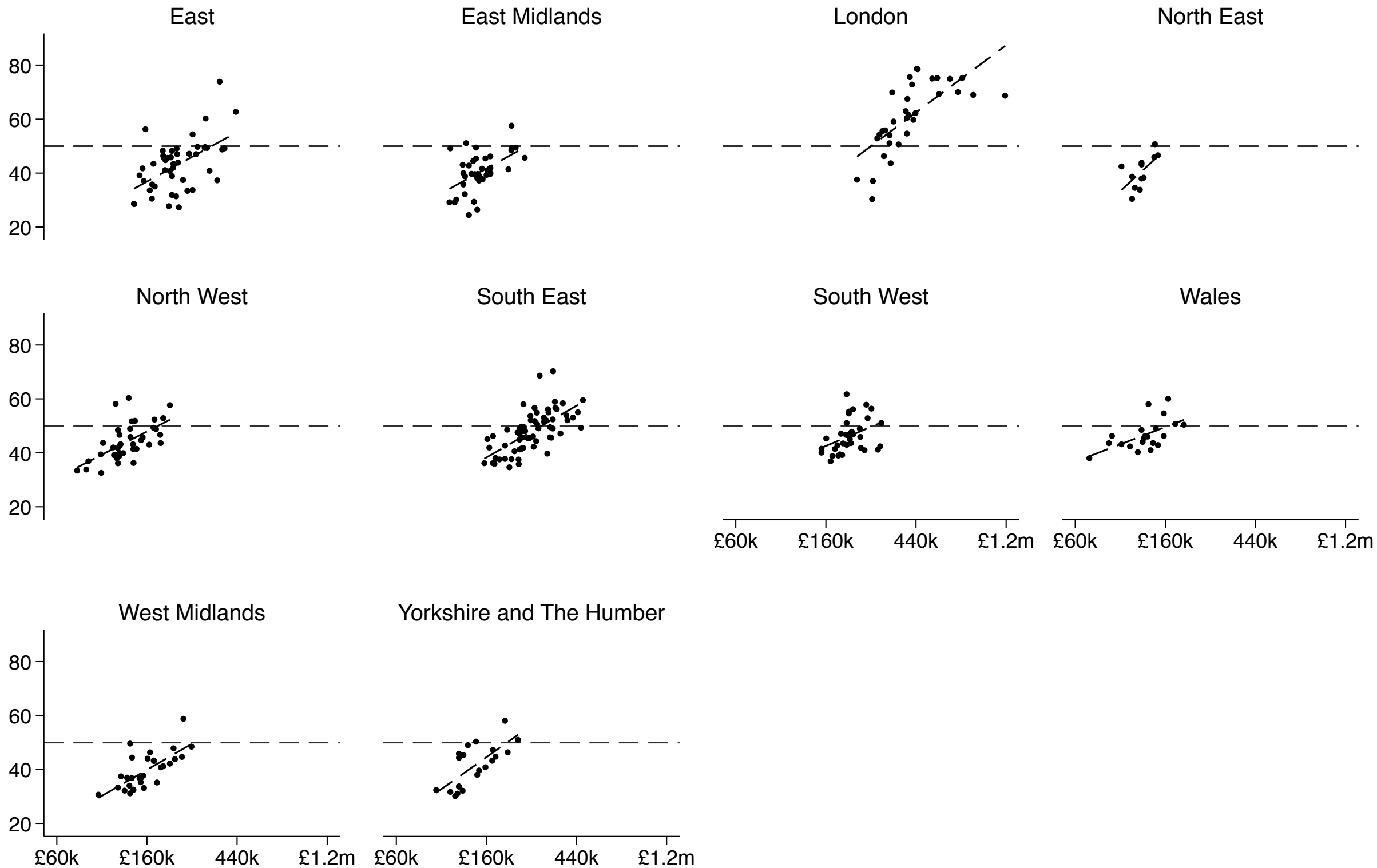
Use British Election Study data to match individuals by homeownership status to their LAD and Brexit intention.
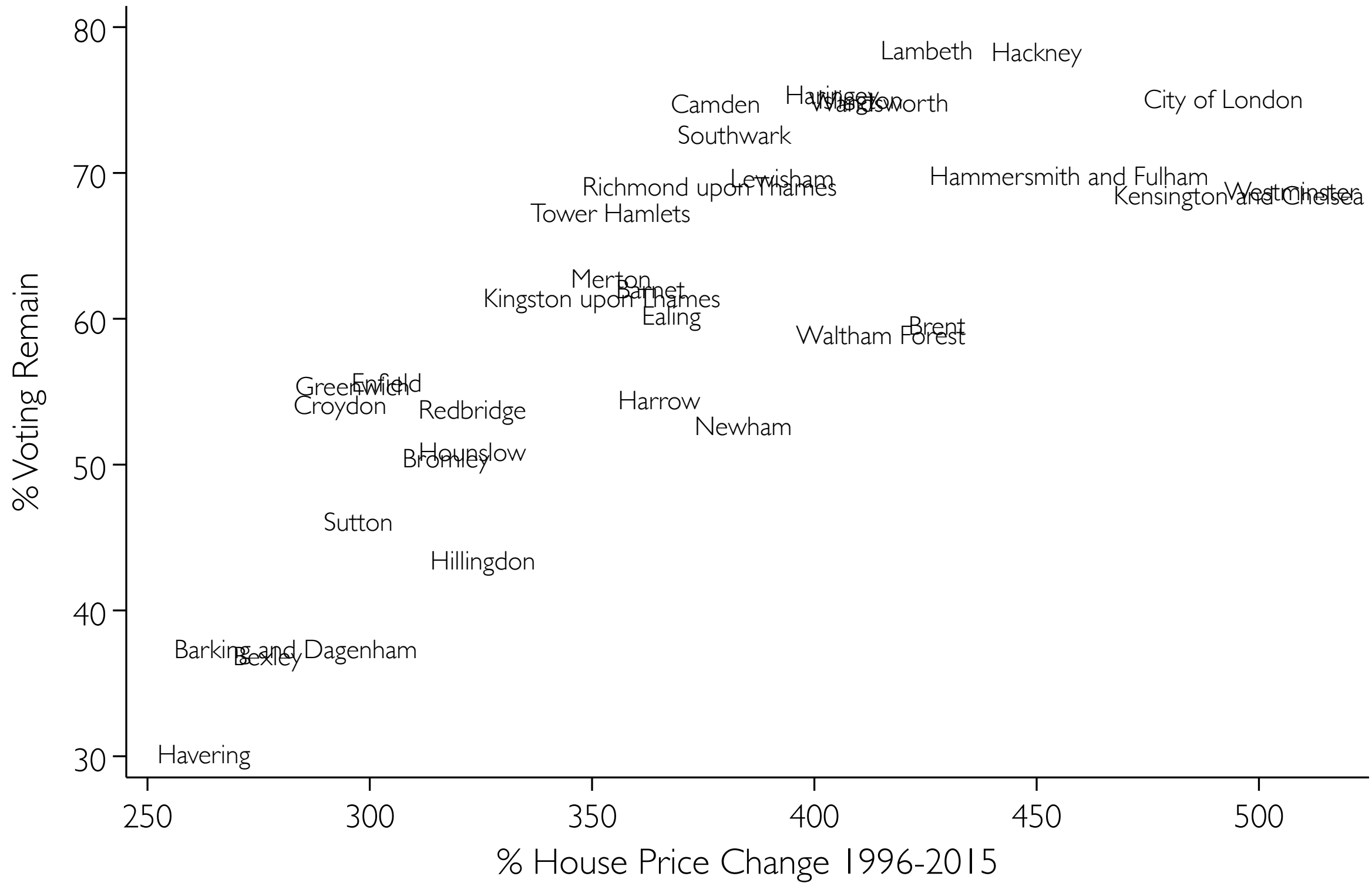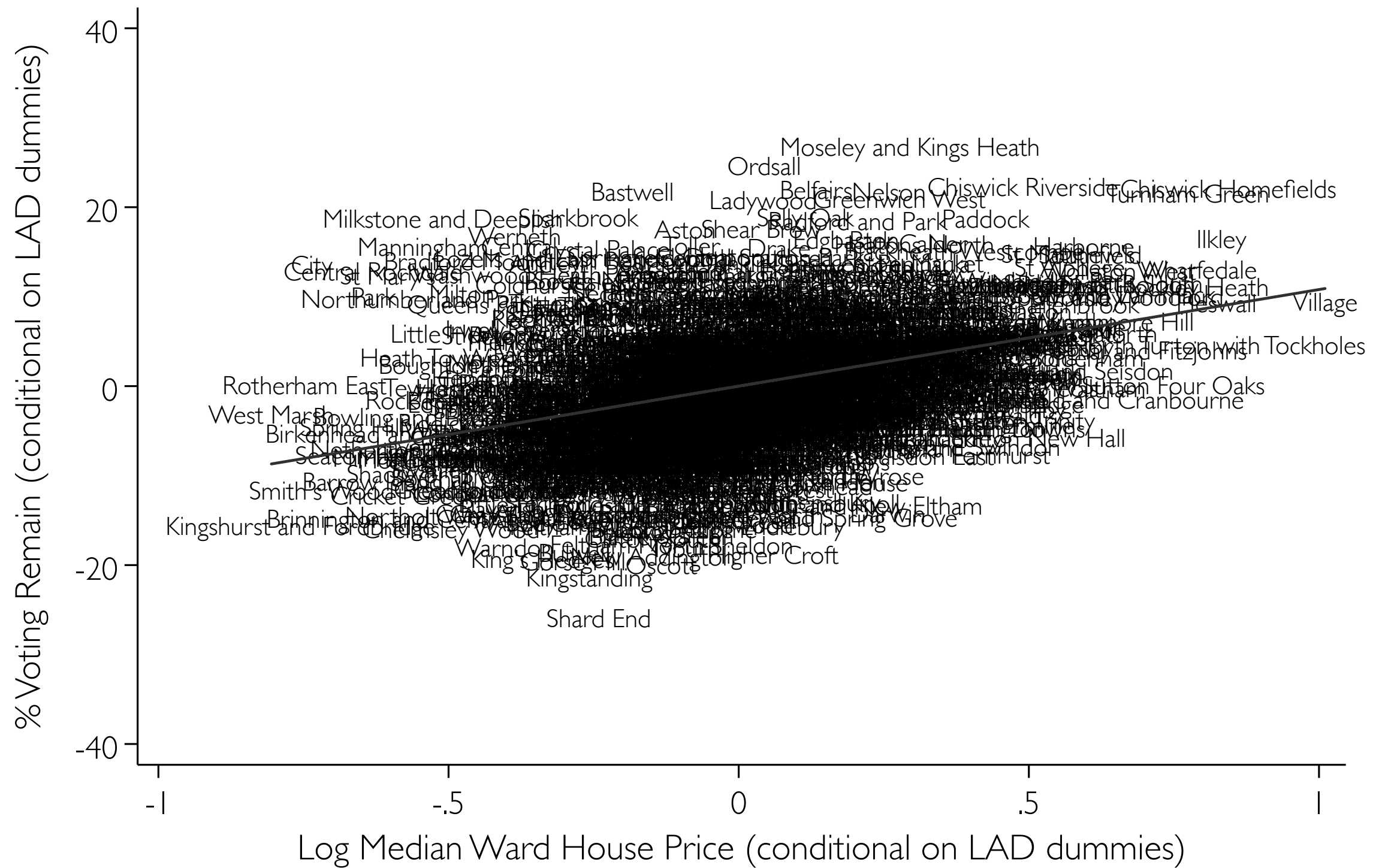
LAD PRICE LEVEL

% Voting for Remain

80
60
40
20

£60k   £160k   440k   £1.2m

Log Median House Price in 2015 (England And Wales)

LAD PRICE CHANGE

% Voting Remain (y-axis) vs % Change in House Prices 1996-2015 (x-axis)

WARD LEVEL

	(1)	(2)	(3)	(4)
Log Median Price (Ward)	15.72	15.72	9.698	10.80
	(0.577)	(1.726)	(1.734)	(1.551)
Log Median Price (LAD)			7.823	
			(2.762)	
Observations	1109	1109	1109	1109
LADs		Cluster SEs	Cluster SEs	Fixed Effects

|	(1)	(2)	(3)	(4)
Ward Price Change 1995-2016	0.091	0.049	0.022	0.012
	(0.007)	(0.009)	(0.007)	(0.006)
Log Median Price (Ward)		9.196	8.049	9.846
		(1.786)	(1.736)	(1.656)
Log Median Price (LAD)			-5.080	
			(4.649)	
LAD Price Change 1995-2016			0.082	
			(0.032)	
Observations	1109	1109	1109	1109
LADs	Cluster SEs	Cluster SEs	Cluster SEs	Fixed FX

BRITISH ELECTION STUDY

I examine the panel completed just before the Referendum, which asked voting intention. Accurate sample - 51% support for Leave.

Data on housing tenure. Interact home-ownership with (log) LAD house price level.

Examine both Remain support and immigration attitudes.
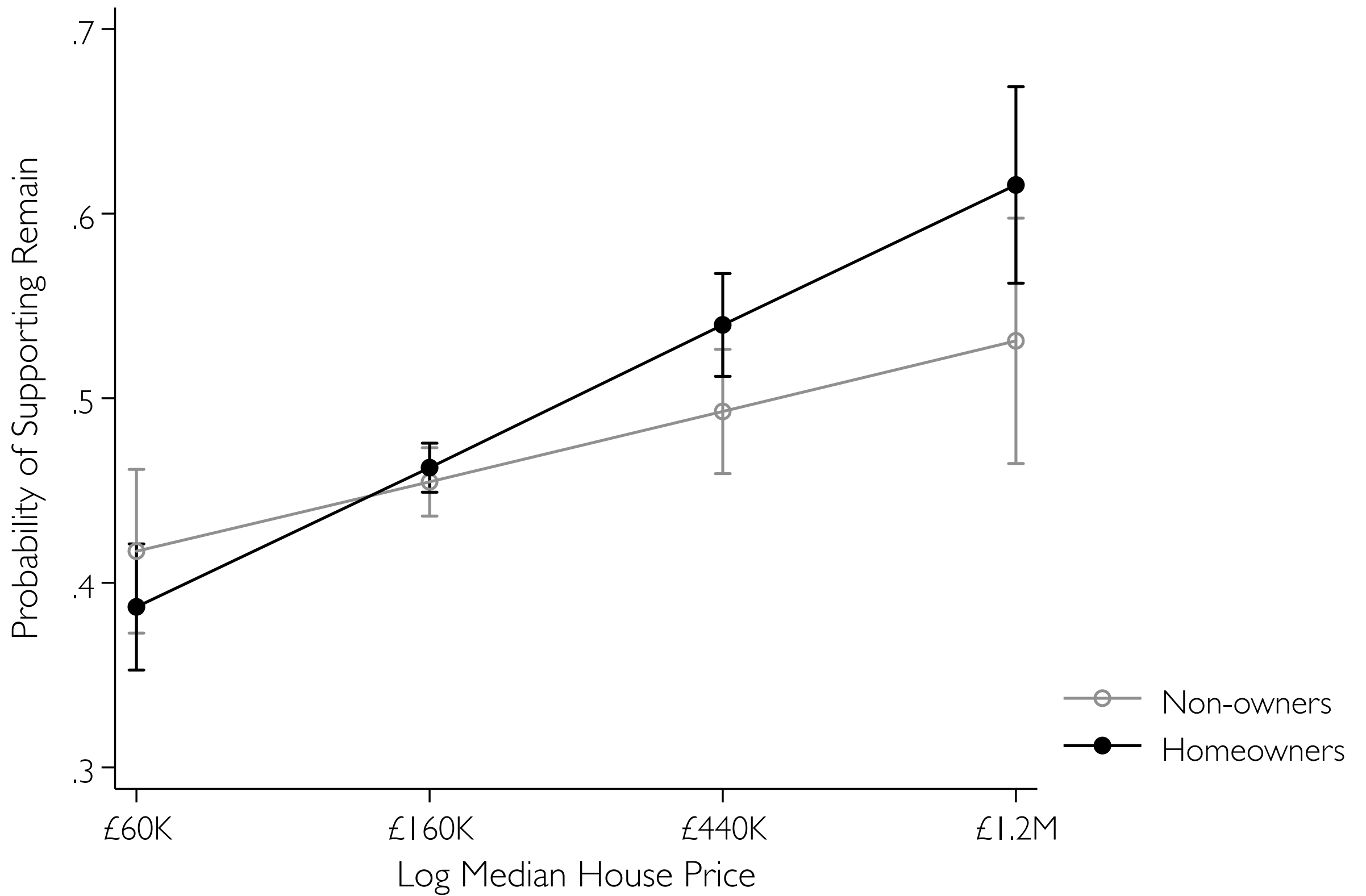
BES

In sum, living in high house price areas correlated with Remain support, *especially* for homeowners.

Remain support highly correlated with immigration attitudes. *Place* seems to affect both.

Remain base: young, high-income, female, in high-house price areas. Pro-migration.

Leave base: old, lower-income, male, low house-price areas. Anti-migration.

TRUMP VOTE

Can see similar patterns using CCES 2016 data which codes individuals by zip-code.

Match 5 digit zip-code to Zillow 'Zestimates' of single family house prices in 2016 along with annual change since 2001.

Can see effect of 'place' at both individual level and at more aggregated Congressional District level.

But NO similar 'interaction' effect to BES in survey.

VOTE CHOICE

House prices: both levels (logged $2016 average by 5 digit zip) and changes (5 yr or 15yr) have negative correlation with Trump support.
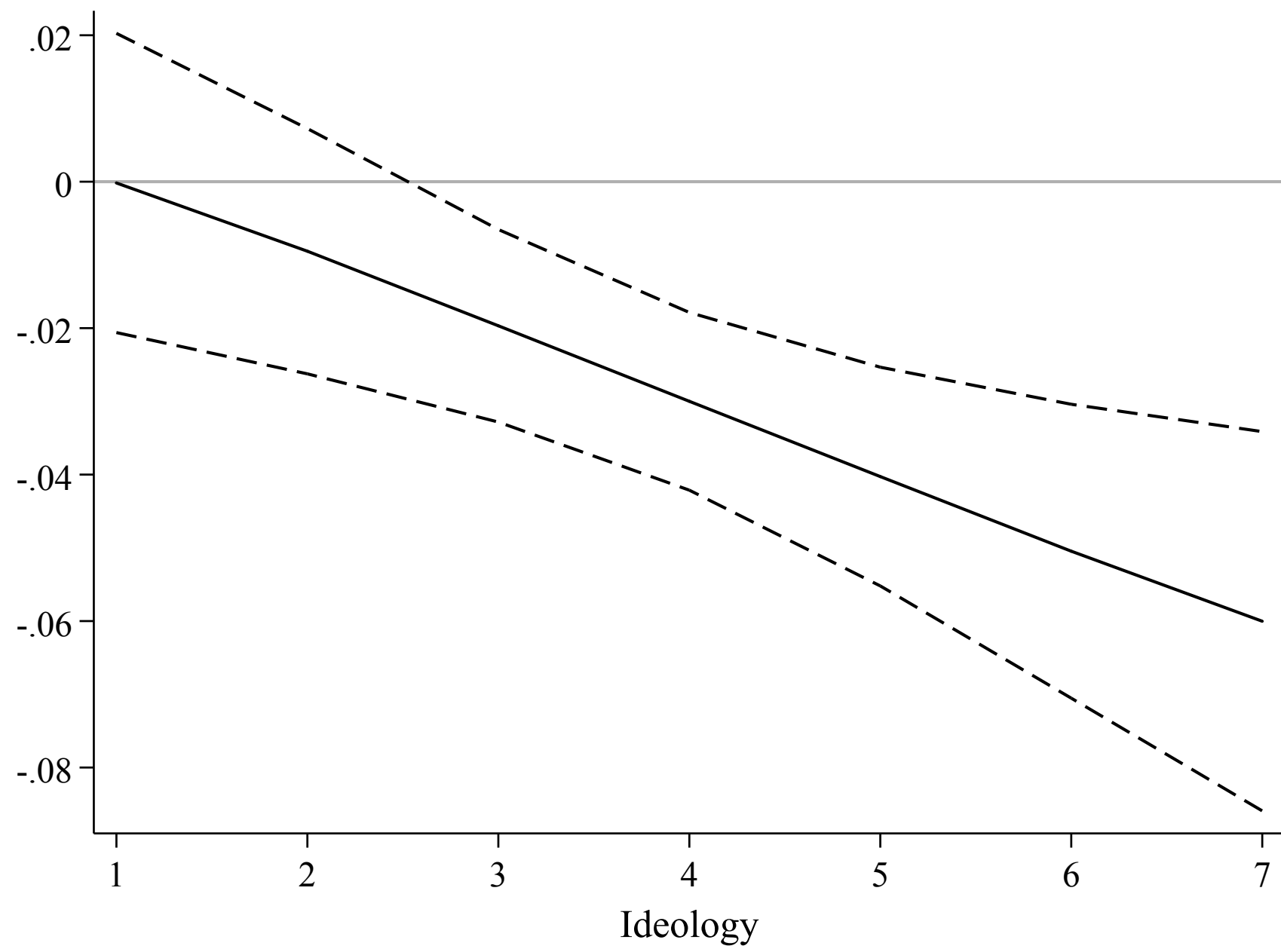
Little sign of interaction effect with homeownership across specifications.

Robust to controlling for state / FIPS dummies, employment status, gender, age, race, income, education, and even Party ID.

Table 1: 2016 Average House Price by 5 Digit Zip and Trump Support

	(1) All	(2) All	(3) Metros	(4) Rural	(5) State	(6) FIPS
House Price 2016	-0.27***	-0.33***	-0.30***	-0.79***	-0.25***	-0.11**
	(0.05)	(0.05)	(0.05)	(0.17)	(0.07)	(0.05)
Homeowner		0.45***	0.44***	0.70***	0.44***	0.38***
		(0.07)	(0.07)	(0.21)	(0.07)	(0.04)
Female		-0.24***	-0.29***	0.35*	-0.25***	-0.27***
		(0.06)	(0.06)	(0.21)	(0.06)	(0.04)
Year of Birth		-0.02***	-0.02***	-0.03***	-0.02***	-0.02***
		(0.00)	(0.00)	(0.01)	(0.00)	(0.00)
Education		-0.23***	-0.23***	-0.20***	-0.23***	-0.24***
		(0.02)	(0.02)	(0.06)	(0.02)	(0.01)
Party ID		1.02***	1.02***	1.07***	1.02***	1.01***
		(0.01)	(0.01)	(0.07)	(0.01)	(0.01)
Household Income		0.00*	0.00*	-0.00	0.00*	0.00***
		(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Black		-1.30***	-1.27***	-1.65***	-1.40***	-1.24***
		(0.17)	(0.17)	(0.32)	(0.18)	(0.09)
Hispanic		-0.39**	-0.36**	-1.32	-0.38**	-0.32***
		(0.17)	(0.15)	(0.81)	(0.17)	(0.08)
Observations	36440	35886	33571	2282	35886	35383

Populist

Dallas Republicans   Rust Belt Reagan Dems

**Rich homeowners in
cheap areas**

**Poor homeowners in
cheap areas**

Low Spending   High Spending

**Rich homeowners in
expensive areas**

**Poor homeowners in
expensive areas**

NYC / SF elite   Urban poor

Liberal