

Study: Countries' wealth inequality independent from income inequality, linked to distribution of housing equity

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Most of what we know from prior research about which countries are more unequal than others is based on measures of income inequality. In their new study, "The Wealth Inequality of Nations," appearing in the August 2021 issue of the *American Sociological Review*, authors Fabian

T. Pfeffer and Nora Waitkus show that comparing countries in terms of their wealth inequality instead of income inequality provides a fundamentally different picture of nations' relative level of economic inequality.

International differences in [income inequality](#), in fact, reveal close to nothing about [international differences](#) in [wealth inequality](#), say Pfeffer, associate professor and associate chair of the department of sociology at the University of Michigan and Waitkus, assistant professor of sociology at Tilburg University and researcher at the International Inequalities Institute at the London School of Economics and Political Science. For instance, many countries that are considered egalitarian when viewed through the lens of income-based comparisons (e.g., Scandinavian countries) are quite unequal when it comes to their [wealth](#) distribution. "While national levels of income [inequality](#) and wealth inequality tend to be largely independent from each other, a notable exception is the United States, which combines very high levels of income inequality with even higher and more exceptional levels of wealth inequality and concentration," the authors say.

The overall lack of association between income inequality and wealth inequality also means that previous income-based frameworks for understanding cross-national variation in economic inequality are inadequate for explaining wealth inequality across nations. In their study, the authors also seek to pave the way for explanations of wealth inequality that provide a deeper understanding of the institutions that drive it. They do so by examining which aspects of national wealth portfolios can best account for a country's position in the international ranking of wealth inequality. Pfeffer and Waitkus find that cross-national variation in wealth inequality among working-age households is centrally related to the national distribution of housing equity.

Primarily drawing on measures between 2012 and 2014, the authors used

harmonized measures of household's net worth—adding housing equity (home value minus mortgages), [financial assets](#) (e.g., savings, stocks, investment funds), and other non-housing real assets (e.g., business equity, vehicles, and other durables), and then subtracting any other financial liabilities and debts (e.g., consumer loans, student debts)—for 15 countries included in the Luxembourg Wealth Study (LWS): Austria, Australia, Canada, Finland, Germany, Greece, Italy, Luxembourg, Norway, Slovakia, Slovenia, Spain, Sweden, the United Kingdom, and the U.S.

The authors calculated housing wealth as the difference between home values (how much a house would sell for) and remaining mortgage principal (how much is still owed on the house), reflecting the authors' interest in "the interwoven influence of housing markets and financialization as they mutually determine the distribution of housing wealth." The findings consistently show that cross-national differences in wealth inequality and concentration chiefly reflect the level of inequality in and concentration of housing equity. A country's distribution of housing equity is thus central to its overall level of wealth inequality.

Moving forward, "Housing equity should be the central building block of the comparative analysis of wealth inequality," the authors say. "Our study provides a first step toward connecting the study of wealth inequality to emerging work on [housing](#) markets and financialization that can help us understand why countries' levels of wealth inequality are so much higher and different from income inequality."

Provided by American Sociological Association

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