The influence of wealth on poverty and inequality in Switzerland

Laura Ravazzini, University of Neuchâtel (Institute of Sociology)/ FORS
Ursina Kuhn, FORS
Gaël Brulé, University of Neuchâtel (Institute of Sociology)
Christian Suter, University of Neuchâtel (Institute of Sociology)

Aims of the presentation

1) Test the importance of a **combination of income and wealth** for measures of inequality and poverty

2) Test the importance of **housing wealth** and of different **age groups** regarding measures of inequality and poverty

The importance of wealth

- It has been omitted in the analysis on household finances for a long time
- Rising interest of the media following the publication of Piketty's book [Capital in the Twenty-First Century]

- Different functions (Orr, 2003):
  - Utility: Income source and material resources
  - Security
  - Social status
  - Political power and social influence
  - Occupational opportunities

- Highly unequal resource (more than income)
- Imperfect estimation of poverty rates (especially for the elderly)

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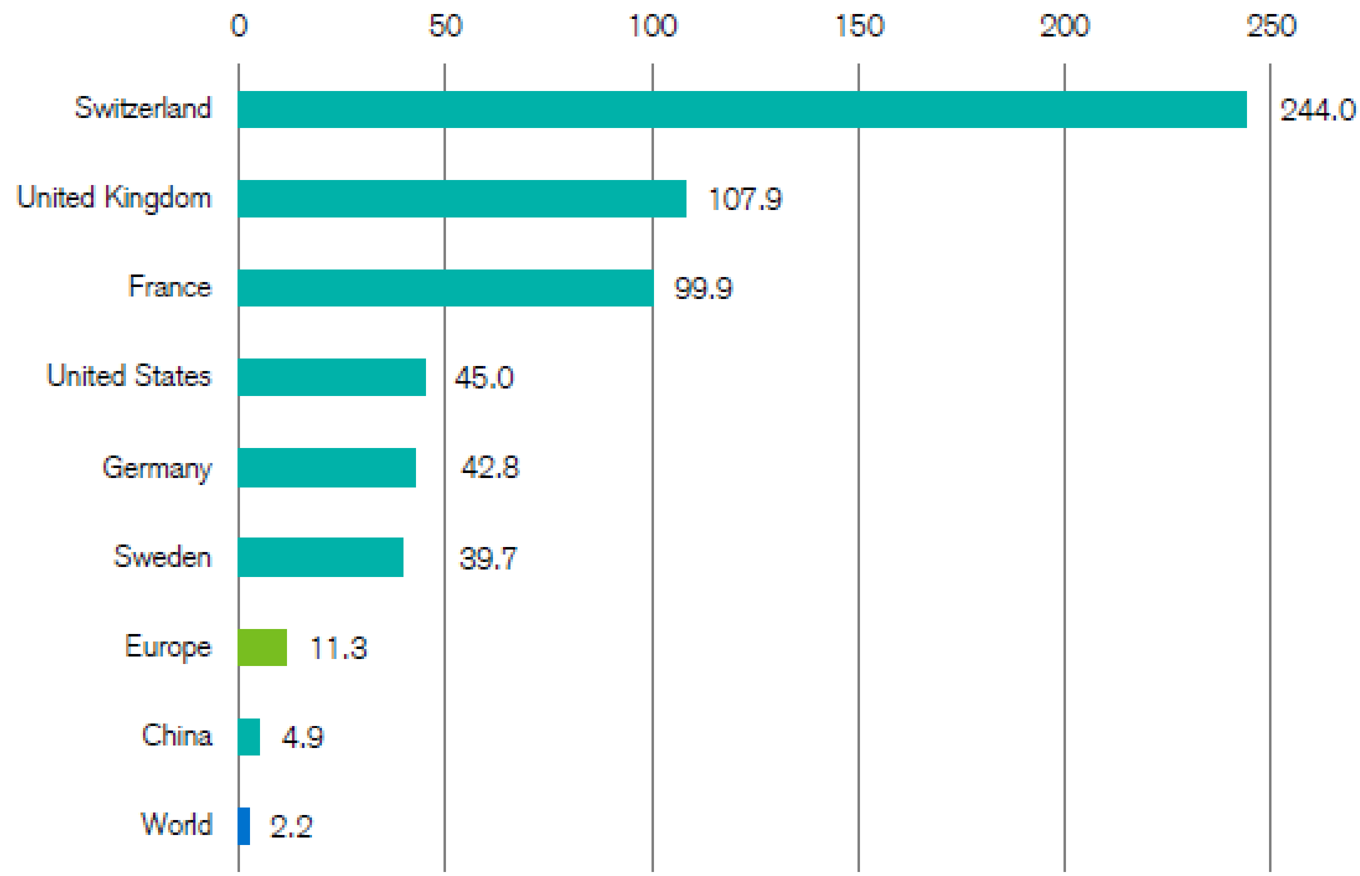
Switzerland, median wealth per person, 2016, USD



Source: James Davies, Rodrigo Lluberas and Anthony Shorrocks, Credit Suisse Global Wealth Databook 2016

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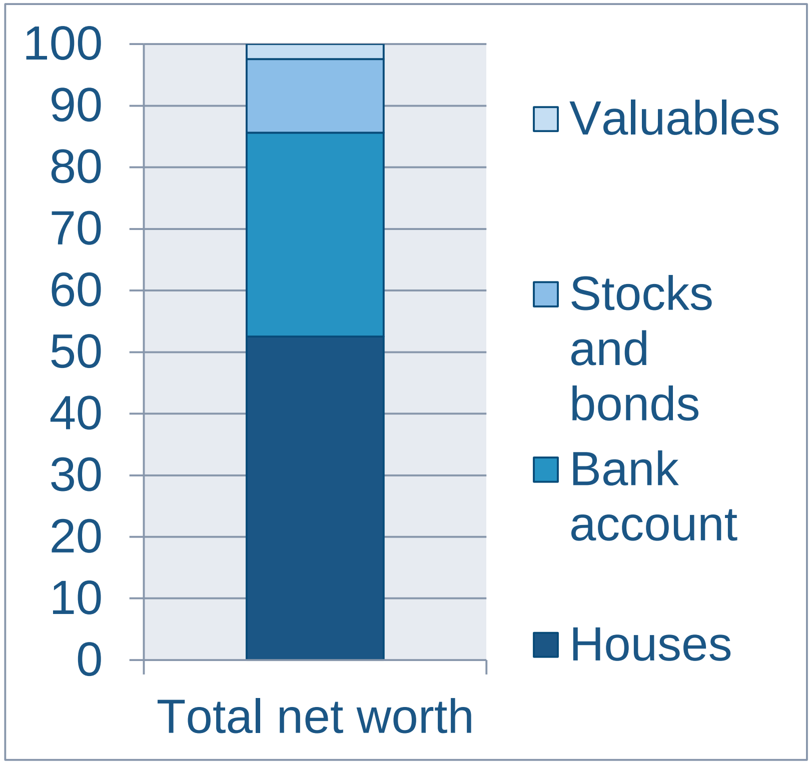
The importance of housing wealth

Lifecycle model for housing wealth: Köppe, S., & Searle, B. (2016): AMUT framework

- Acquiring (with mortgage)
- Managing (repaying mortgage)
- Using (in old age)
- Transferring (give to children)



-The largest share of total net worth (52.5%)
-The share of owner-occupiers is linked to wealth accumulation and wealth inequality (e.g. Dietz & Haurin, 2003; Kaas et al., 2015).

Wealth data in Europe

International without Switzerland:

- Europe: Household Finance and Consumption Survey (HFCS)
- Luxembourg Wealth Study (LIS-LWS)
- World Wealth & Income Database

International with Switzerland:

- Credit Suisse Global Wealth Report based on tax records
- ISSP 2009 (categorical)
- SHARE

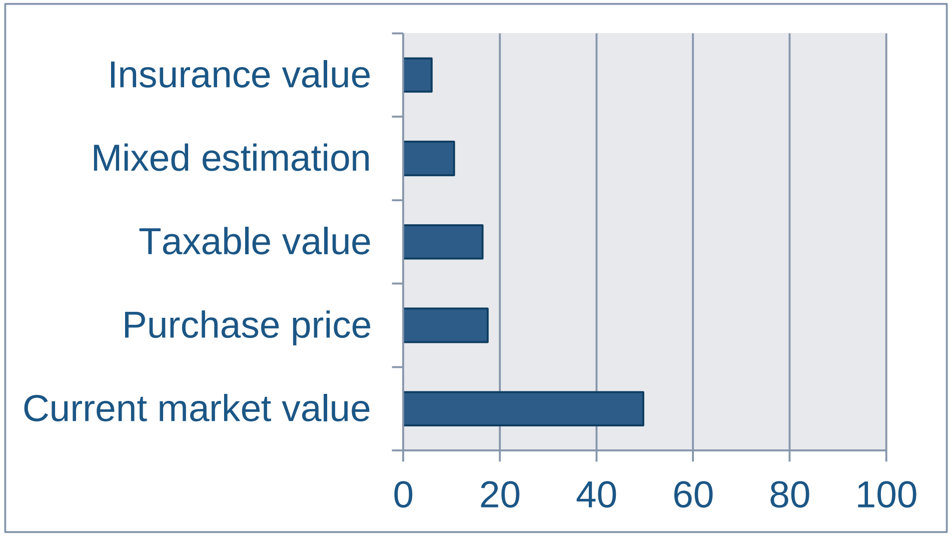
Apart from Swiss SHARE, there are:

- Cantonal and federal tax records
- the Household Budget Survey (HBS) since 1998
- the Swiss Household Panel (SHP) in 2009/2010, 2012, and 2016
- the Swiss Statistics on Income and Living Conditions (CH-SILC) in 2011 and in 2015

CH-SILC 2015

Database	Panel	Population	Trimming
SILC	4-year rotative	All, no HWI	3*IQR

QUESTION: -In your opinion, what would be the value of your real estate assets (houses and land) **including your main property and mortgages**? If possible, please refer to its current market value, otherwise to the taxable value, the insurance value or the purchase price. -Can you indicate the total value of your mortgages?



CMV: men, active, high-educated, urban, large houses

Purchase price: young, women, inactive, low-educated, rural, small houses

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External coherence

"Consistency with external sources of information, such as national accounts or tax records"

PNA for real estate assets 2014	1,820,517,000,000	PNA for net worth 2014	3,339,725,000,000
SILC 2015	1,761,000,000,000	SILC 2015	2,061,000,000,000
PNA for real estate assets 2014 (mean)	220,999	PNA for net worth 2014 (mean)	405,421
SILC 2015 (mean)	217,212	SILC 2015 (mean)	356,301
Ratio	98%	Ratio	88%

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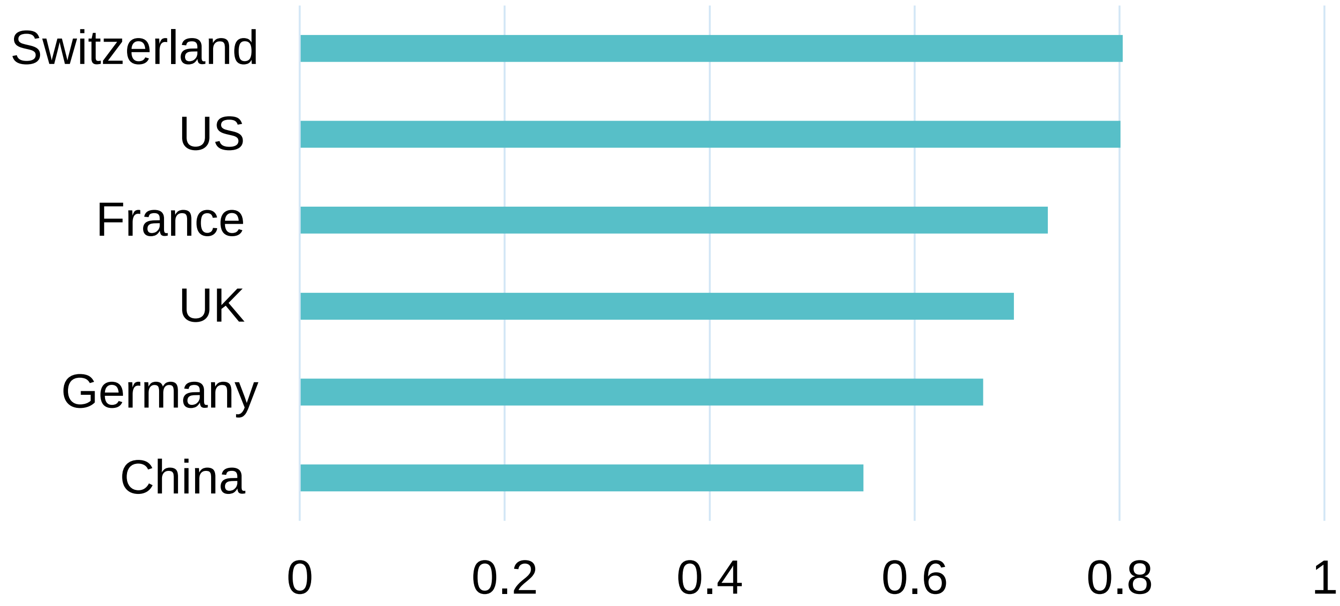
Wealth inequality

- In 2011, the richest 10% of the Swiss population owned 75% of total wealth and that the richest 1% owned 40% of total wealth (Foellmi & Martinez 2016).
- Gini index in 2000: 0.8, 0.85 in 2008…until now based only on tax records:



Source: James Davies et al. 2009

Poverty approaches

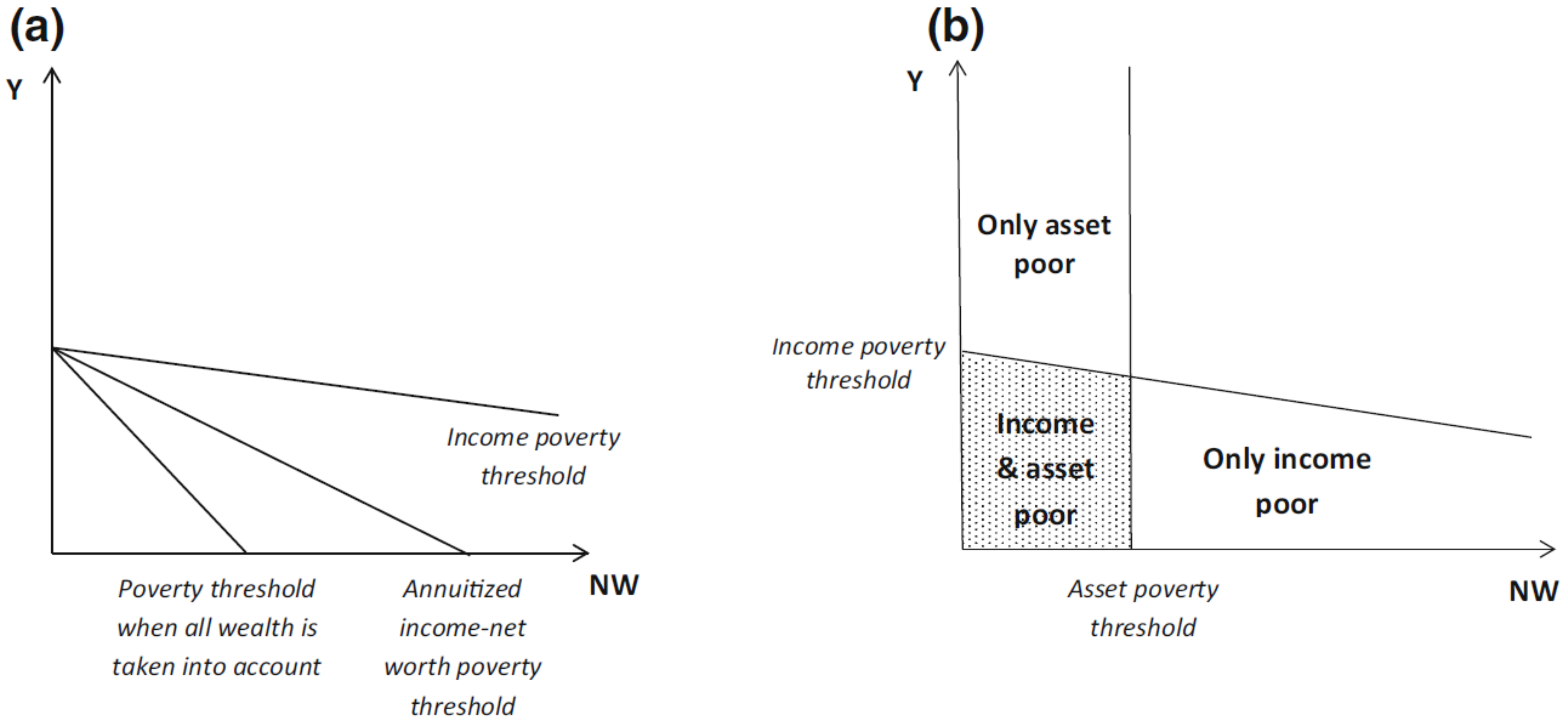


Fig. 1 Illustration of poverty lines. **a** Unidimensional poverty index, **b** two-dimensional poverty index. *Source*: Brandolini et al. (2010, pp. 270, 272) Kuypers & Marx, 2016

Formulas

a) Unidimensional povery index

$$AY_t = Y_t + \left[\frac{\rho}{1-(1+\rho)^{-n}}\right] NW_{t-1}$$

$$n = T \quad \textit{for unmarried},$$

$$T_1 + (T - T_1)b \quad \textit{for married}$$

b) Two-dimensional poverty index

$$\textit{Asset poverty} : NW_{t-1} < \zeta Z_t$$

$$\textit{Income poverty} : Y_t < Z - r_t NW_{t-1}$$

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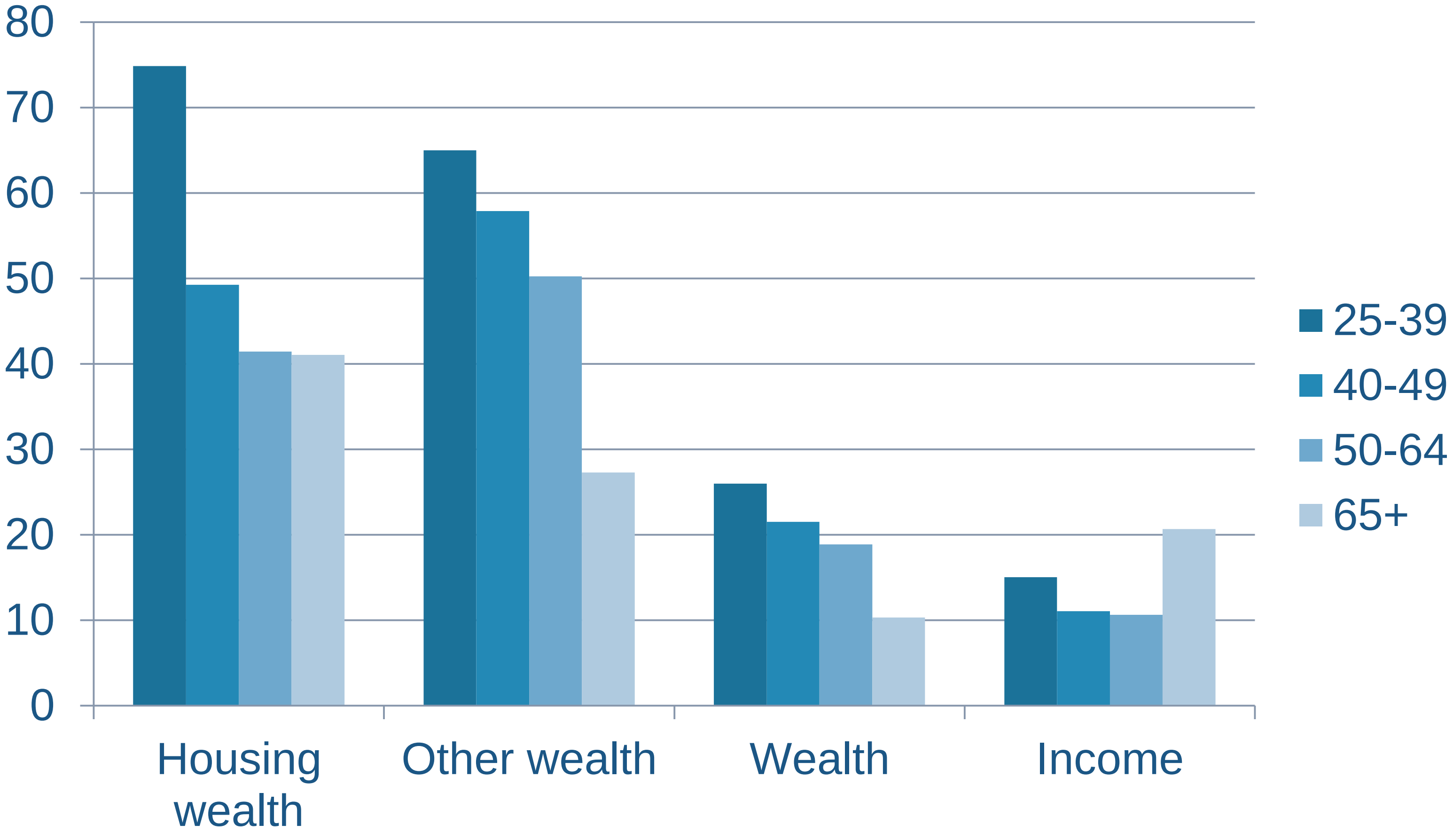
Poverty_income or wealth



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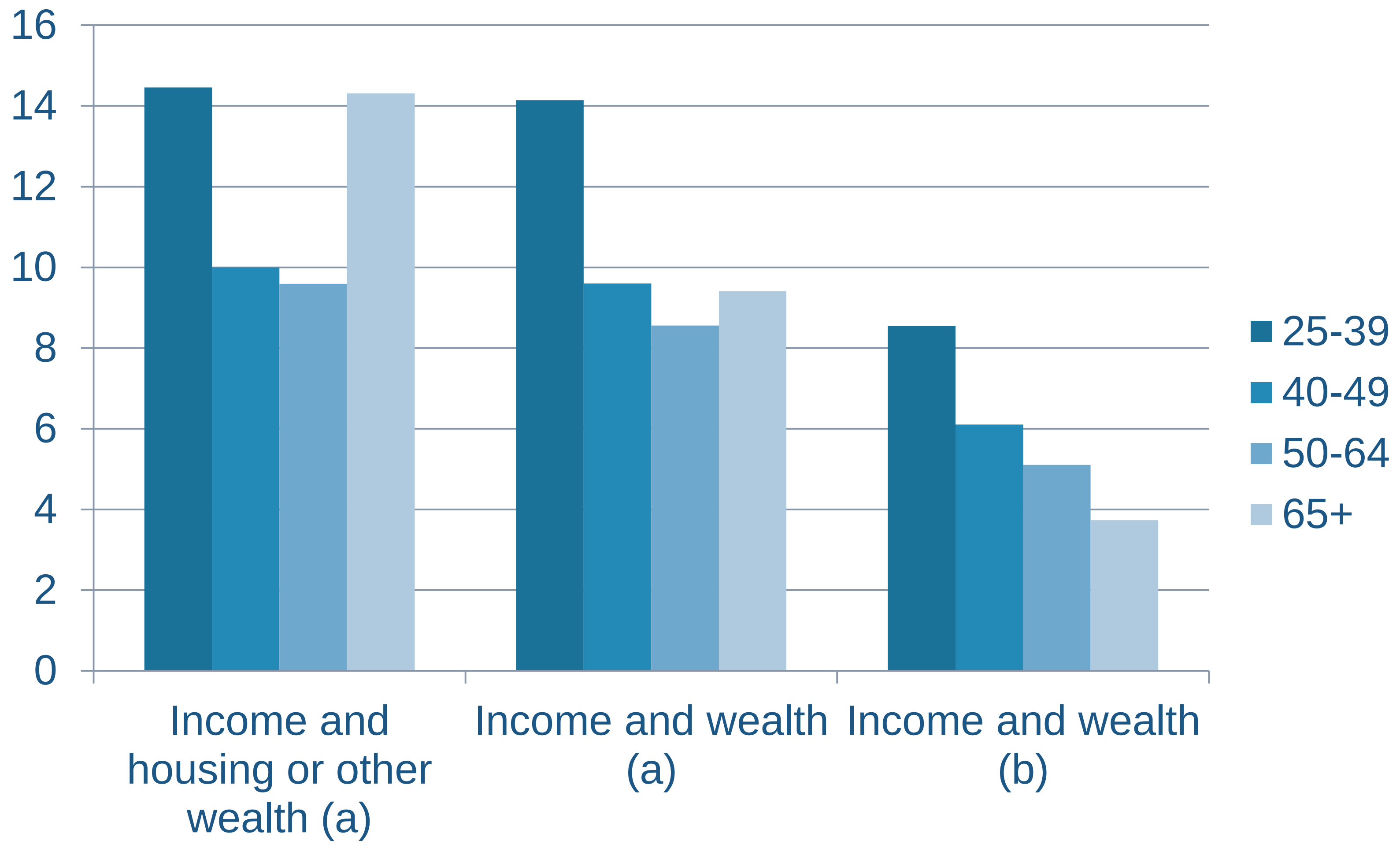
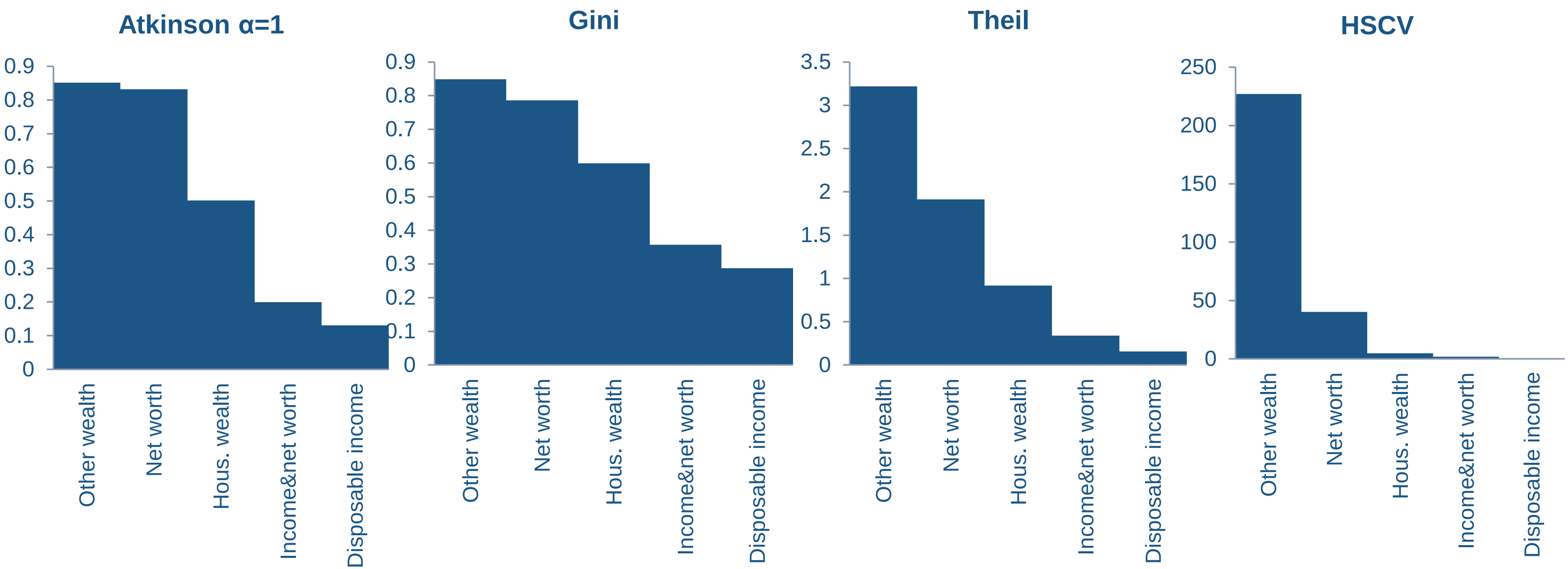
Poverty_income & wealth

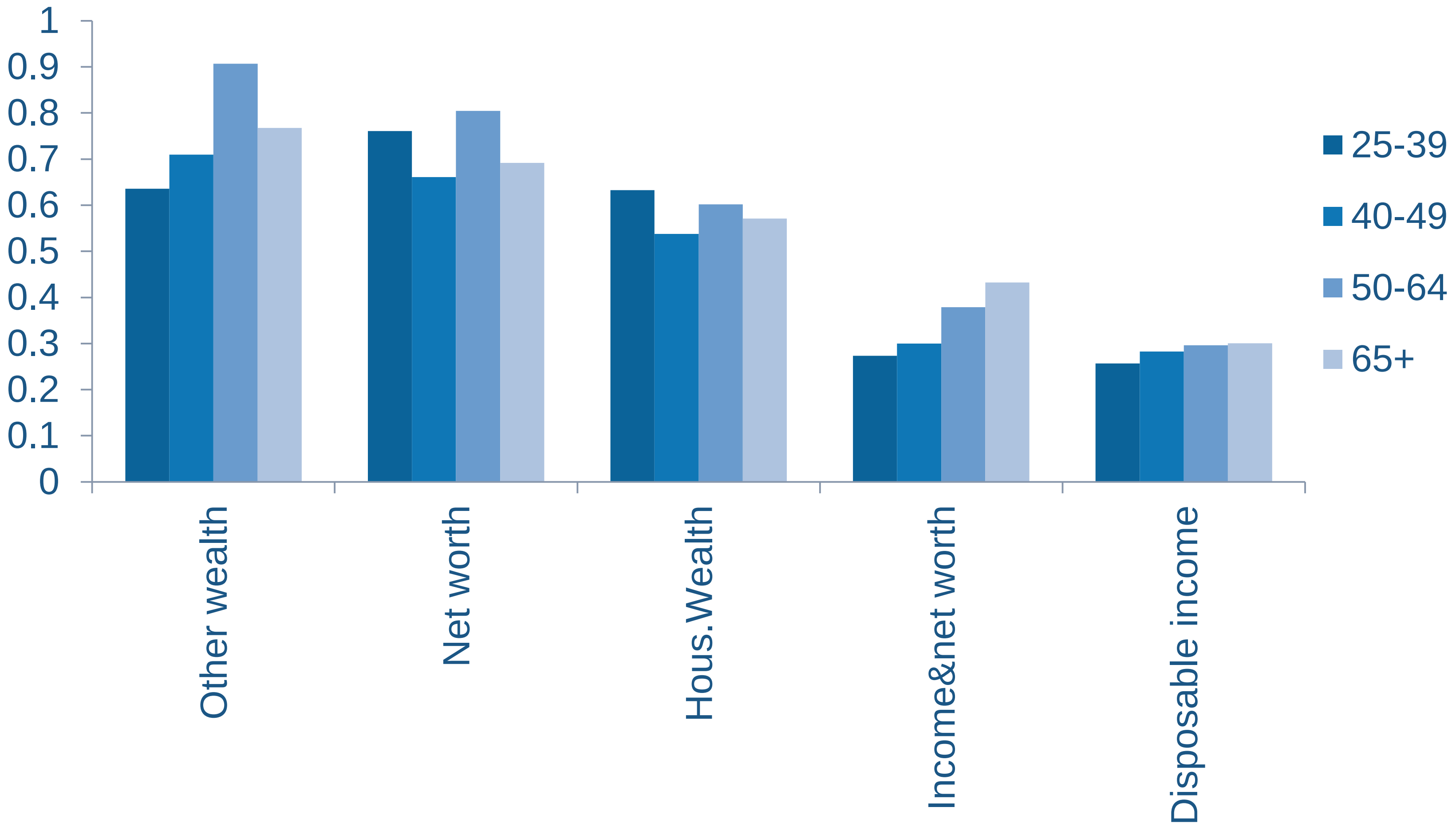


Inequality estimates SILC



GINI: 0.8 for wealth, 0.29 for disposable income, 0.36 for a combination of the two

Gini by age groups



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Conclusions_inequality&poverty

- Young adults are more wealth deprived, whereas older adults are more income poor. Combining the two, and independently from the method, **the most vulnerable households are young adults**

- Inequality of net worth des not increase linearly with age, but it does when it is combined with income and adjusted for life expectancy: **inequality of economic wellbeing increases with age**.

- Housing wealth contributes to 52.5% of the inequality of the unidimensional composite index of income and net worth. **Houses have a big impact** on the poverty rate of older population groups. **Other wealth sources are also important**.

Future developments

- Inclusion of pension entitlements (big change for the young)

- Exclusion of a share of primary home wealth (big change for the elderly)
  - Home ownership increases the money available for non-housing consumption by reducing housing expenditure, but homes might not be easily sold and their current value might be far from their original purchase price.

- For annualised income: reflection on life expenctancy and equivalence scales

Thank you!

Laura.ravazzini@unine.ch

Laura.ravazzini@fors.unil.ch