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Household wealth in the main advanced countries[1]

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[1] This presentation was prepared for the meeting. The views expressed are those of the authors and do not necessarily reflect the views of the BIS, the IFC or the central banks and other institutions represented at the meeting.

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Diego Caprara and Francesco Cusano helped to produce the slides

Motivation

Why is it important to study household wealth?

(i) Consumption is influenced by wealth, non only by income, interest rates, age and other variables: there is a large literature on the **wealth effect** (Poterba 2000, Paiella 2007).

(ii) Household wealth composition provides information on agents' risk aversion (Guiso, Haliassos and Jappelli, 2003), and on the characteristics of the financial system (Goldsmith 1969, De Bonis and Pozzolo 2012): think to the alternative between banks and the Stock Exchange.

(iii) An excessive household debt might have negative consequences for financial stability.

Motivation (*follows*)

(iv) The crisis of public pension schemes and population ageing make the study of wealth accumulation more crucial than in the past.

(v) Well-being depends non only on income but also on wealth (Fitoussi, Sen, and Stiglitz, 2009).

(vi) Piketty (2014) underlined the importance to study the trends of the wealth to income ratio (W/Y), in order to analyze wealth concentration.

Definitions

- Following national accounting definitions, household wealth is the sum of financial wealth plus real wealth – largely houses – net of liabilities (mainly made by mortgages and consumer debt).
- According to some economists, human capital should be included in wealth (unconvincing to me).
- Financial wealth includes different assets – currency in circulation and deposits, bonds, shares and other equity, mutual funds, insurance and pension fund products – but not the assets implied by public pension schemes.

Statistical sources

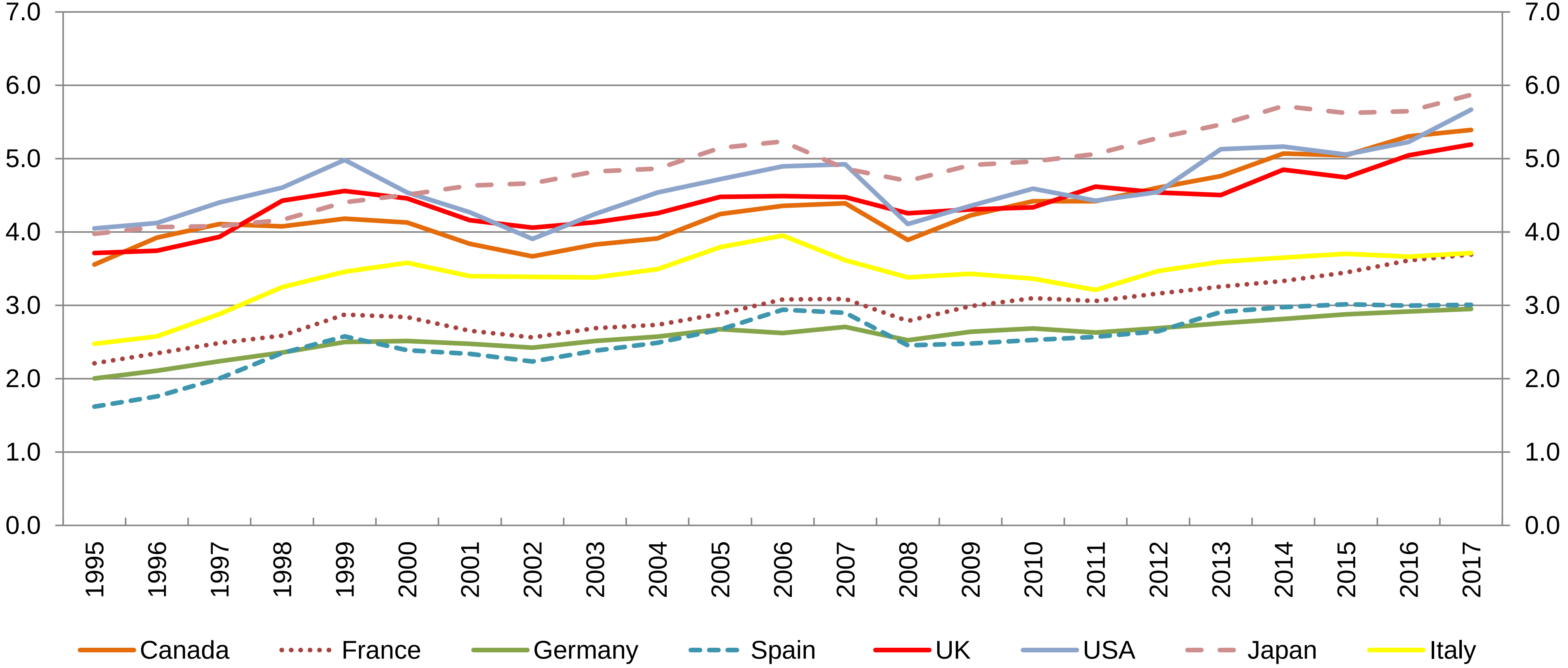
- We focus on household **aggregate** wealth (see www.oecd.org).

- Financial assets and debt are taken from financial accounts, produced by central banks or by institutes of statistics (see van de Ven and Fano, 2017).

- The measurement of real wealth is not harmonized across countries; the quality of these statistics is lower than that of financial accounts.

Financial wealth is greater in the USA, the UK, Japan and Canada than in euro area countries

(1995-2017; ratios of financial assets to disposable income)



Factors that influence the ratio W/Y

(i) Higher direct and indirect participation to financial markets.

(ii) Weak public pension schemes in the UK and the US explain high household investments in private insurance and pension fund products.

(iii) Substitution or complementarity with real wealth: look at the Spanish case.

(iv) Different weight of price effects vs financial flows.

Do changes in wealth depend on price effects or from financial flows?

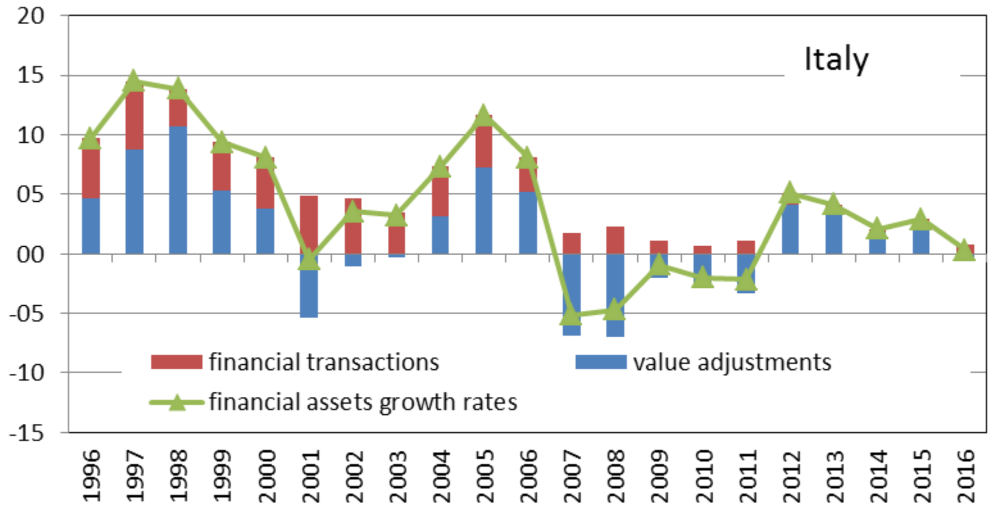
FA: financial assets; P= price effects (value adjustments) ; F=financial flows (transactions)

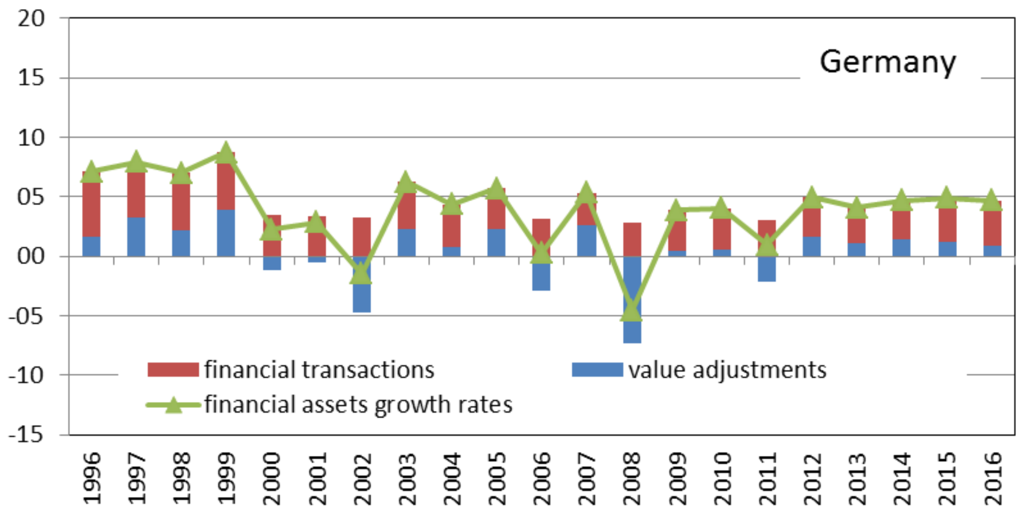
The link between stocks and flow is the following:

$$FA_t = FA_{t-1} + P_t + F_t$$

$$\frac{FA_t}{FA_{t-1}} - 1 = \frac{P_t}{FA_{t-1}} + \frac{F_t}{FA_{t-1}}$$

Price effects (blue) and financial flows (red) in Italy and Germany

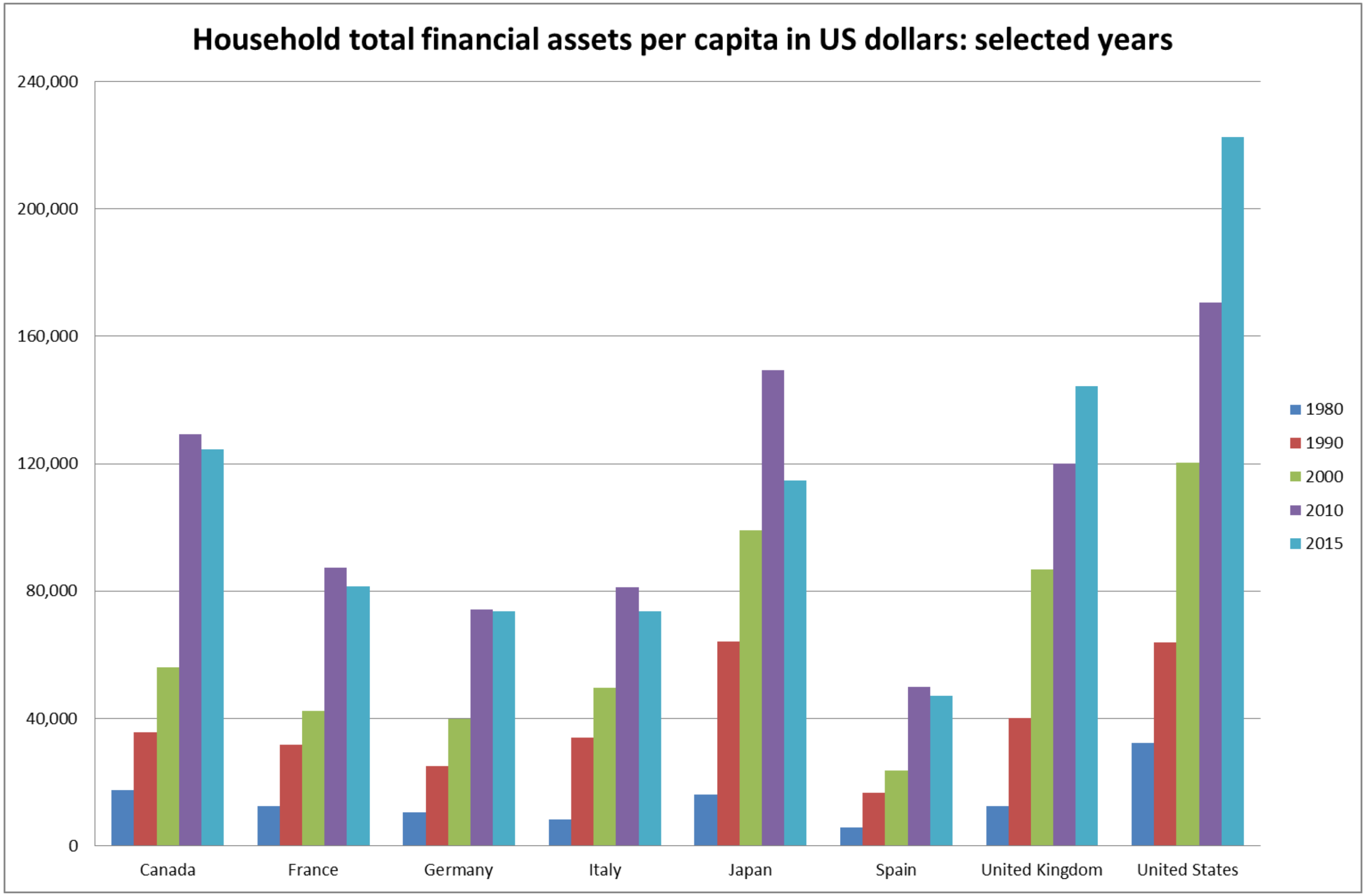




In Italy price effects were greater than financial flows.

In Germany price effects were smaller than financial flows.

Financial wealth per capita also increased



The composition of household financial wealth confirms the existence of different capitalisms

Household financial assets in the main advanced countries (2017)

(percentage composition)

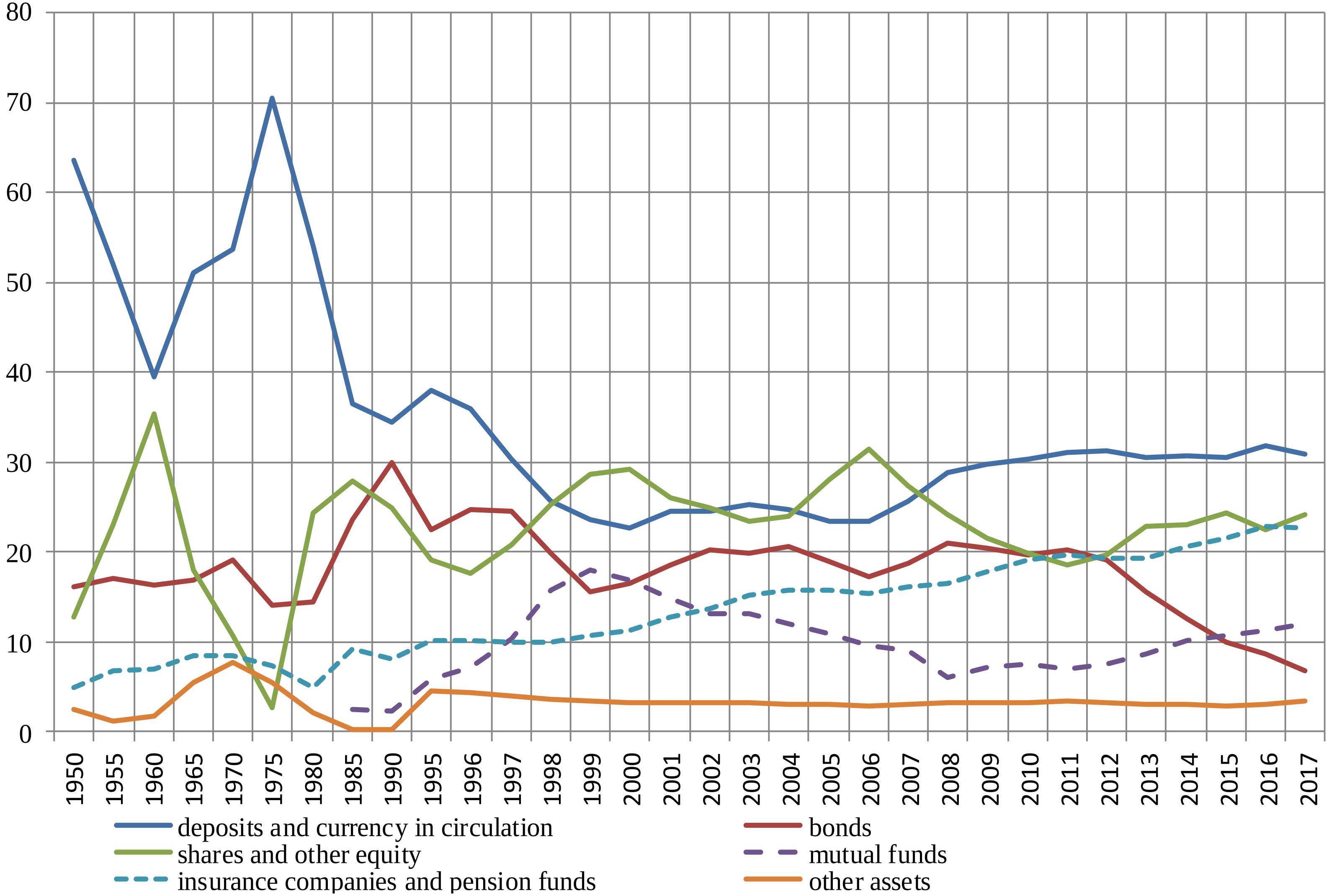
	Currency in circulation and deposits	Bonds	Shares and other equity	of wich: quoted shares	Mutual funds	Insurance technical reserves and pension funds	Other assets
Canada*	20.4	2.0	18.9	9.0	19.8	36.5	2.4
France	27.4	1.1	22.8	5.0	5.8	37.2	5.8
Germany	39.2	2.6	10.9	5.6	10.8	36.0	0.6
Italy	30.9	6.9	24.1	1.9	12.2	22.6	3.3
Japan	51.5	1.6	13.4	6.0	3.8	26.9	2.8
Spain	39.9	0.8	26.5	6.0	14.6	16.3	1.8
United Kingdom	23.9	0.4	11.0	4.0	4.9	56.1	3.7
United States	12.4	5.3	35.4	(N.A.)	11.9	33.6	1.4

Source: OECD, Data extracted on 13 Mar 2019. * Our estimates for the last two columns.

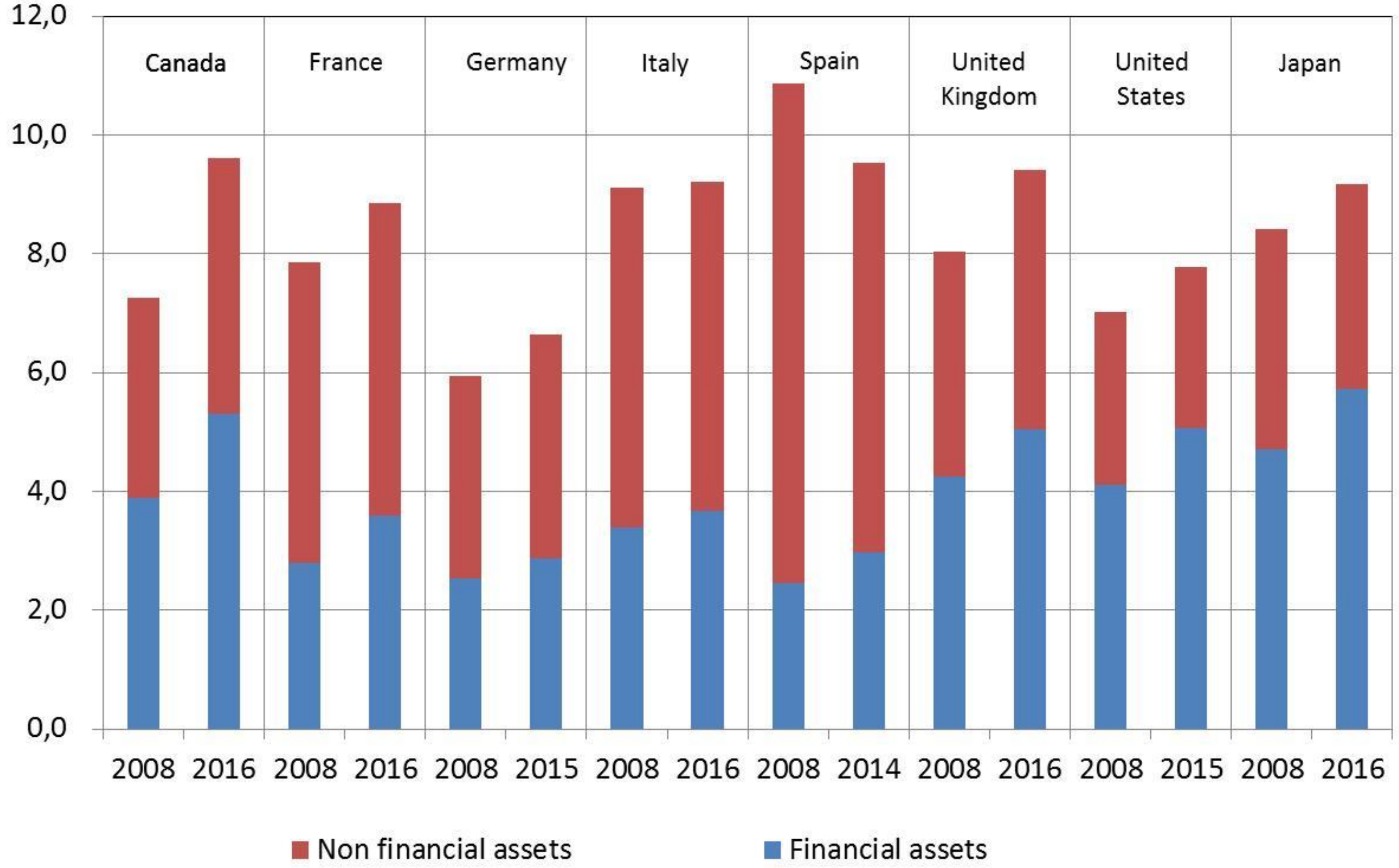
How financial systems differ

- Low inflation, and deflation in some years, explain why deposits prevail in Japan.
- Deposits also prevail in Germany, Spain and Italy, confirming the strong role of banks in these countries.
- American households have the greatest investments in shares and other equity.
- Italy has the highest level of unquoted shares, linked to the diffusion of family ownership of small-medium firms.
- Asset management – the sum of mutual fund, insurance companies, and pension fund assets – in Spain, Italy and Japan are smaller than in other countries.

In Italy business cycles, stock exchange up and downs, taxes, households' and banks' preferences influenced the evolution of the composition of financial assets *(1950-2017; percentages)*

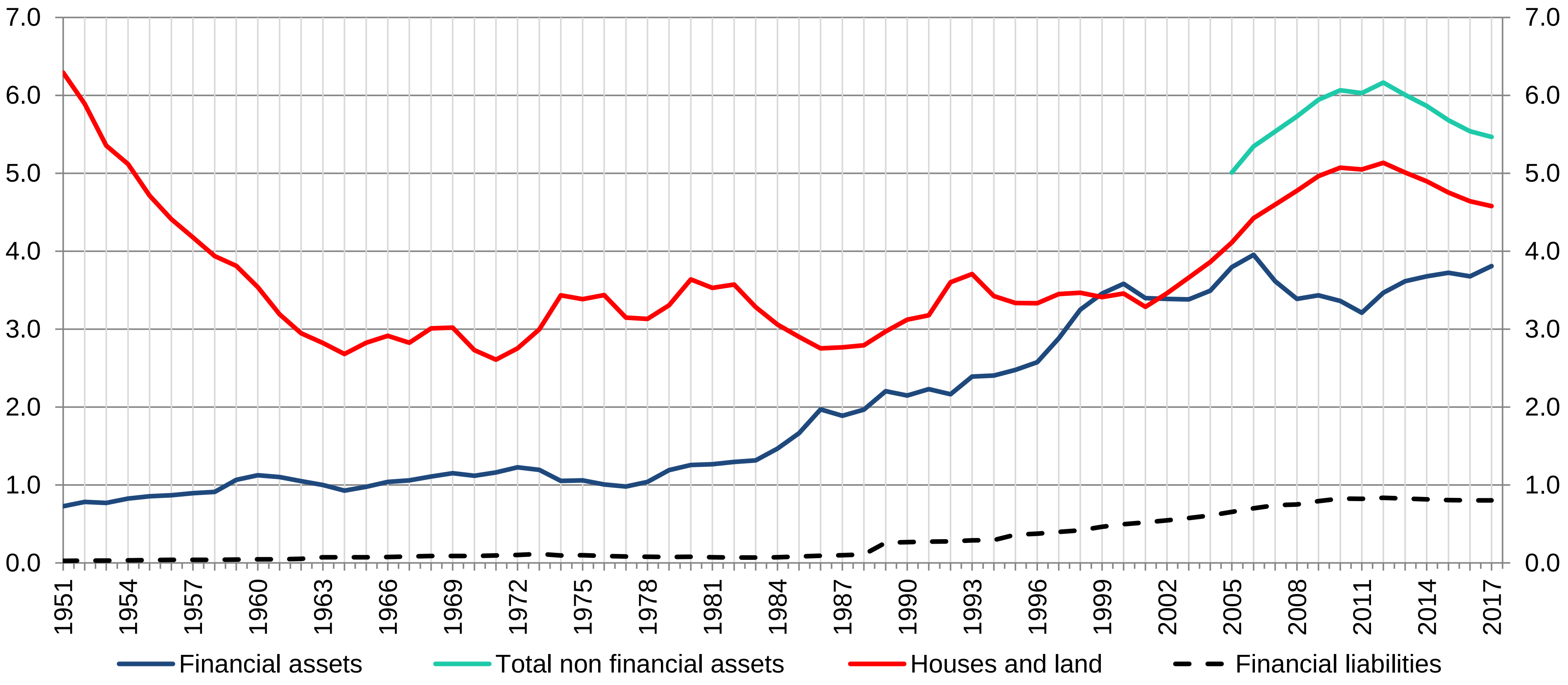


Real assets are greater than financial ones in most of countries *(ratios to disposable income)*



In Italy real assets are greater than financial wealth, but the difference is smaller than in the past

(1951-2017; ratios of financial assets to disposable income)

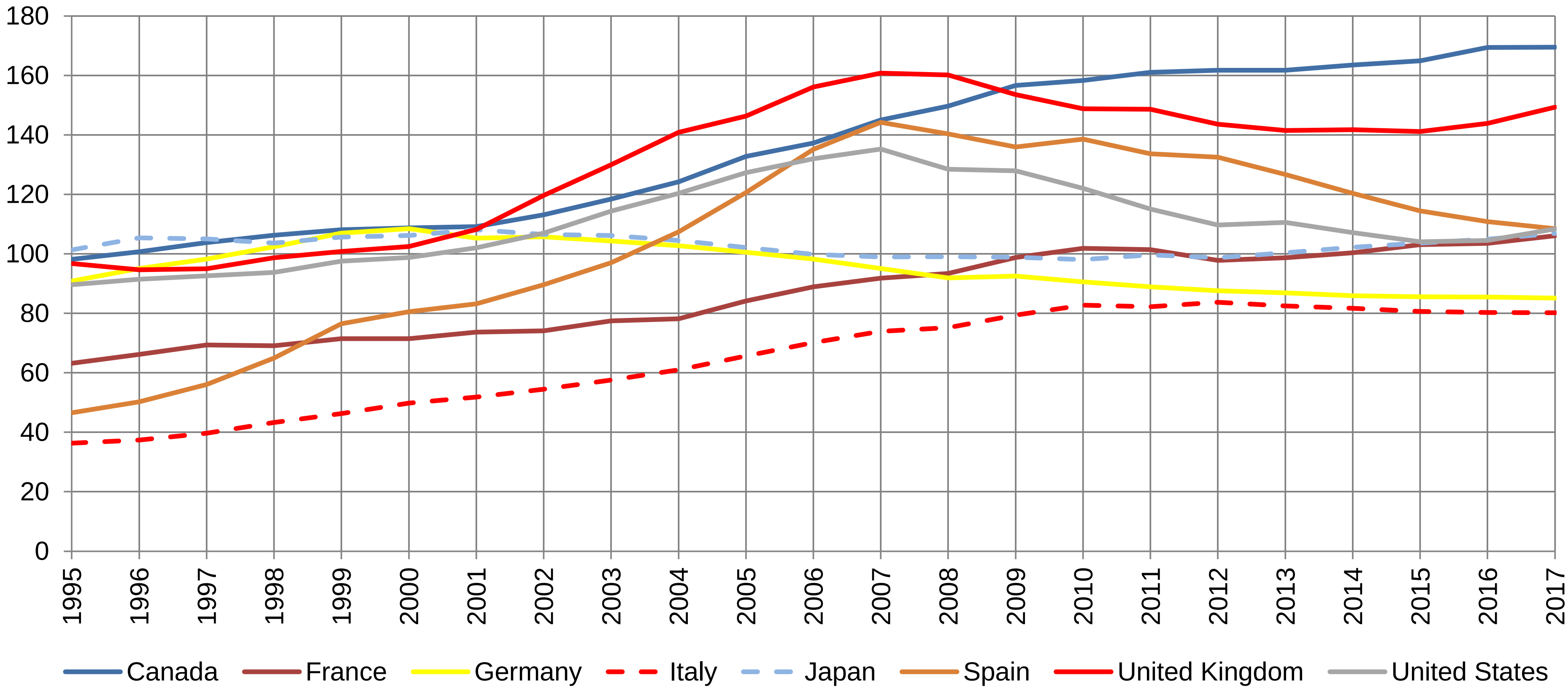


Financial assets vs real assets

- Probably the difference between financial wealth and real wealth became smaller also in other countries: this is the meaning of what we call "financialisation" or "financial deepening".

Household debt increased in most of countries and stabilized after the global financial crisis

(1995-2017; ratios of financial assets to disposable income; percentages)



Do supply-side or demand-side variables influence household debt?

- Taking into account the consequences of the global financial crisis (2007-2009), economists abandoned the "benign neglect" attitude towards debt that characterized the debate during the "Great Moderation".
- Supply-side variables include, *inter alia*, the quality of bankruptcy laws, the time required to resolve insolvencies, the availability and quality of Credit Registers, and legal origin (Anglosaxon, Scandinavian, French or German).
- Demand-side variables include, *inter alia*, savings, wealth, interest rates, and welfare State models (liberal, conservative, and social-democratic).
- Supply-side factors are more robust than demand-side indicators to explain household debt.

Conclusions and issues for discussion

- Italian households have a high financial and real wealth. Moreover their debt is low by international comparison.
- Household portfolios reflect national specificities, such as the relative importance of the Stock Exchange vs. the banking system.
- Asset management increased in all the countries.
- In some countries households' high debt and firms' high leverage might increase financial vulnerability if a sharp rise in interest rates will take place.

Conclusions and issues for discussion *(follows)*

- Did household wealth composition become more similar across countries? Do financial systems converge? (Bruno, De Bonis and Silvestrini 2012; Barucci and Colozza 2018).
- What matters more for wealth growth? Saving (Piketty 2014), financial gains or house price increases (Bonnet et al. 2014, Knoll et al. 2014)?
- It is interesting to "look through" the investments of mutual funds, insurance companies and pension funds, with the goal to find the "final" products of asset management.

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