Bring it back in

Viggo Nordvik and Per Åhrén

Since it was published in 2014, Thomas Piketty's book on *Capital in the Twenty-First Century* (CTFC) (Piketty 2014) has received massive attention and much (but not unanimous) praise, both from economists, other social scientists and in the public debate[1]. Moreover, yes, it was published in 2014, even though it feels like it has been with us for a much longer time. CTFC is a rich book, allowing readers and commentators to cherry pick and emphasise what fit into their own agenda. We read the contribution from Maclennan and Miao (hereafter MM) in this issue as a nice example of this. Moreover, we use MM as an opportunity to cherry pick and reflect upon topics we find important and interesting both from a policy and from a research perspective.

To be clear from the start, we belong to the camp that view CTFC as one of the major contributions to both social science and the public debate over the last decade. MM state that the ambition of their paper is that it should act as *a prompt to a wider debate on its implications for emerging housing research and policies*. This is a much-welcomed initiative and we think that the paper has a potential to deliver on its ambition.

CTFC most certainly stands out in its own right. It is, however, fair to say that in part its immediate and rapid success is because it hit what we can call the time spirit. One can only speculate on what the fate of CTFC would have been had it been published during the neoliberal wake of the mid 1980's, exemplified by MMs quote of the influential Chicago economist Robert Lucas stating that a focus on questions of distribution, to be both seductive and poisonous. Among the contributors to, and examples of, the zeitgeist into which CTFC arrived to, counts bestselling books of social scientists (Stiglitz 2012, Putnam 2015, Atkinson 2015). For the public debate we also find contributions such as e.g. Wilkinson and Pickett (2011).

Our contribution to the discussion of MMs paper is selective, i.e. we concentrate on issues of distribution of wealth, housing capital from a welfare and social justice perspective. I.e. we do not engage in the debate of r>g as a base for a general theory of growth and MM's discussions of the role housing and housing systems has had and can have in future capital accumulation and growth. As MM demonstrate, there has been a discussion of Piketty's capital concept, as it is it in effect a wealth measure that includes both productive capital and other (privately owned) assets. MM argue that in an analysis where distribution and change is at the core what should be the focus is a households command over resources, not simply ownership of the production base – this is best measured by the wealth measure of capital, similar arguments is given by André (2015).

Moral and value

In a refreshingly explicit way both Piketty and MM state that descriptions and analyses of inequality of opportunity (be it income or capital/wealth) is (also) a moral exercise as well as

[1] By the end of April 2016, we found 3,081 citations to CTFC in google scholar and well above 100,000 hits using an ordinary Google search. The latter is admittedly a bit less than the 14,000,000 for Karl Marx's volume with a similar name.

an exploration into welfare theory. A moral approach to studies of inequality does not imply an adversity towards any inequality or setting up a society without any inequality at all, as a utopian dream. Moreover, studies of inequality and distribution is a moral exercise that was at the core of economic reasoning among the classical economists of the 19th century, which has somehow lost ground as a topic for many years (Bojer 2005). In CTFC this is formulate as: *It is long since past the time when we should have put the question of inequality back at the centre of economic analysis and begun asking questions first raised in the nineteenth century*, p.16. Having said that one should of course remember the efforts and important contributions of e.g. Amartya Sen and Anthony Atkinson from the early 1970s up to the present.

The book *The Spirit Level* (Wilkinson and Pickett 2011) and the public debate it sparked off, may serve as an illustration of the importance of discussing distributional matters in a moral or social justice setting. *The Spirit Level* demonstrate, more or less convincingly, that low inequality has nice effects on crime, productivity, public health etc. We find it important to discuss inequality as a social outcome, which a society have preferences over – in itself, as a moral question. What if someone comes up with convincing empirical evidence that increased inequality would improve efficiency of a specific economy (yes, we think that it is possible)? We would claim that it suffices to say we want to reduce inequality because we want a more just society, not because we want to achieve something else.

It is also noteworthy to mention what Piketty writes about the roles of experts and non-experts when it comes to distributional judgements.

To be sure, it would be a mistake to underestimate the importance of the intuitive knowledge that everyone acquires about contemporary wealth. ... Indeed, the distribution is too important an issue to be left to economists, sociologists, historians and philosophers. ... The concrete, physical reality of inequality is visible to the naked eye, and naturally inspires sharp but contradictory political judgements. p.2

MM observe that Piketty *eschews use of Gini coefficients* throughout CTFC. A major drawback of Gini's (and their generalisations in the family of Atkinson-measures of inequality) is that it is hard to give both level and changes in the levels any concise intuitive interpretation. An attempt to explain the Gini G intuitively is: *Suppose, for example, that the Gini coefficient increased from G^1 in year 1 to $(k+1)G^1$ ($k>0$) in year 2, i.e., an increase of 100k% [..] this increase in inequality corresponds to introducing an equally sized lump-sum tax of 100k% of the mean income in year 1 followed by redistributing the collected tax revenue as a proportional transfer where each unit receives 100k% of its income in year 1* (Aaberge 1997) p 216 [2]. Even though this result is proven to be correct it is not obvious that it enhances intuition much. This stands in contrast to measures such as the share of the capital or income in a society owned by the 1, 10 or 20 percent richest, used in CTFC. Quite a few of us can learn from this eagerness to use measures that are intuitively interpretable.

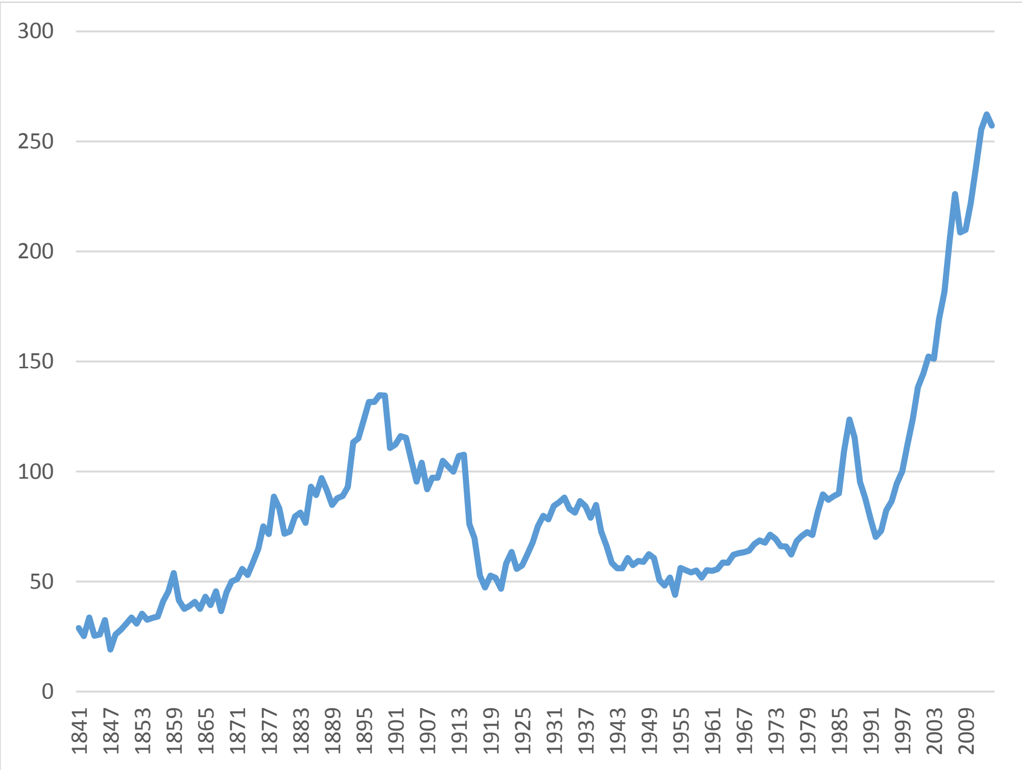
[2] This result ws demonstrated earlier by Pedersen, A. W. (1999) The taming of inequality in retirement. *A comparative study of pension policy outcomes', Oslo: FAFO. Report,* 317.. There also exist other possible ways to interpret the Gini.

Some empirics

We continue by presenting a few pictures of inequalities in the Norwegian housing market. The purpose of this part of our commentary is twofold. First, it maps out some patterns and structures that we regard as important nuts and bolts for an empirical understanding of social inequalities and the housing market; i.e. patterns and structures that deserve more thorough future investigation. Second, in the spirit of Piketty it draws attention towards the kind of data that can be used in order to disentangle social inequalities in the housing market, and social inequalities at large arising in the housing market.

Housing capital is obviously an important part of wealth. For a major part of families it is the dominating part of the portfolio. The Central Bank of Norway has done a terrific job in obtaining and putting together information from many different sources in order to construct a price index for housing property that goes back to 1841 (Eitrheim, Klovland and Qvigstad 2004).

Figure 1 – Real house prices in Norway, 1841-2014, 1912=100



Just inspection of the graph suffices to start speculations. First, we observe that from around 1850 up to 1985 there hardly seems to be any strong trends in the real housing prices. After the 1990 bust, one has witnessed an explosion in Norwegian home prices. Second, one implication of this might be that young people entering adulthood and first time homeownership in one particular year in the 1960's and -70's were facing a housing market which were very similar to the market five years before and five years afterwards. Somehow, you can say that timing of entry into home-ownership was not that important for subsequent wealth and capital. This does not hold true for entrants in the housing market from 1990 up to the present. It also very probable (some would even say self-evident) that the gap between tenants and owner-occupiers in terms of wealth and opportunities of future choice has widened considerably from 1992 up till today. Moreover, our empirical knowledge about the consequences for inequality between cohorts of entrants to the housing market really is scarce. We do not know whether differences in the context when entering the housing market amplify or dampen over time.

Some empirical studies do, however, exist. In the US, (Newman and Holupka 2015) study how timing of entry into homeownership over the tumultuous 2000s affected net wealth, using PSID-data. They document wide variations according to year-of-purchase, and that there also is marked differences, along the initial distribution of net wealth, in terms of changes in net wealth. Their most prominent finding is that over the tumultuous period blacks fared far worse than whites in terms of changes in net wealth. This the authors attribute to blacks buying in areas more vulnerable to price decline. Somehow, this stands in contrast to the findings of (Levin and Pryce 2011), who use price data from England and Wales and find that the growth rate of house prices do not differ between areas with initially high and low price levels. They find this an indication that inequalities within the owner-occupied sector is not increasing. They do however; demonstrate considerable cycles in the interdependency between initial price levels and rates of change.

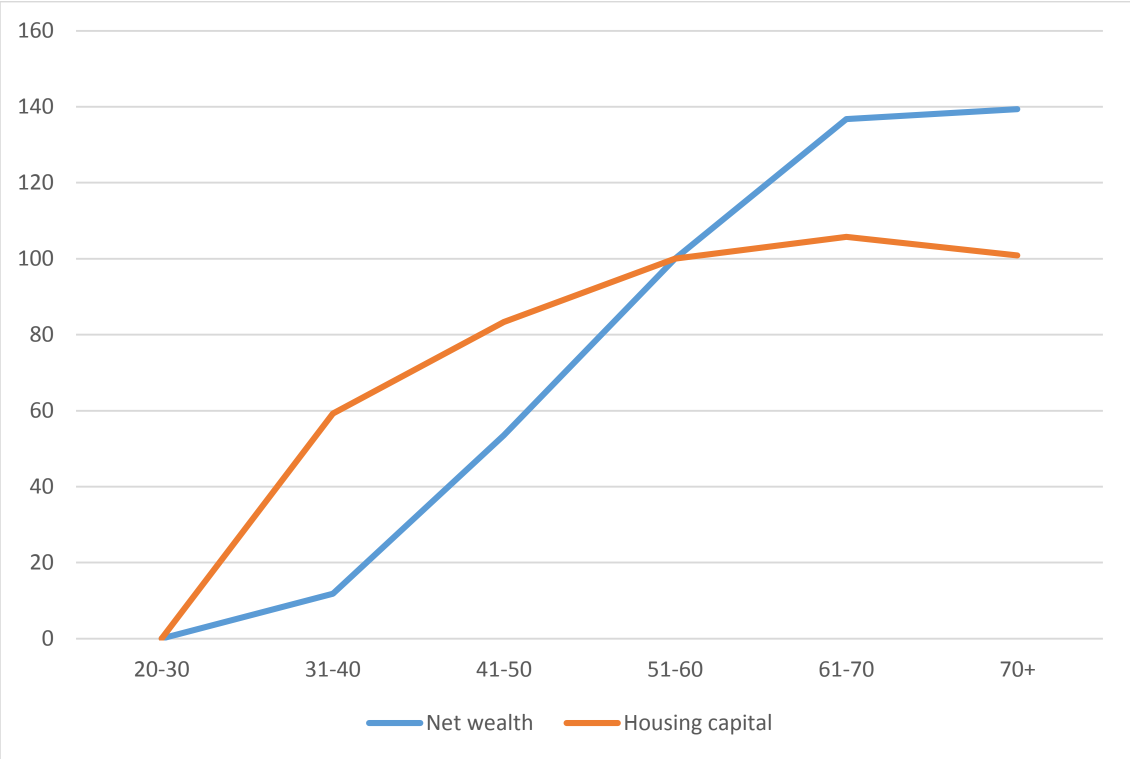
Inspection of the price development also make it natural to speculate on the consequences of the development for different cohorts, are there new patterns of inequality between generations emerging? Do we know enough of the role of heritage or family transfers for housing careers of and inequality between youths in the housing market? These topics will not be further elaborated on in our comment, we do, however, find it pertinent to point towards them as part of a future research agenda on housing and inequality.

We have also considered individual level data on wealth and housing capital in Oslo – the capital of Norway. In analysing them, we encounter the same type of problems as Piketty and his collaborators in the analyses of data. Data is taken from tax registers and assets are not always assessed by the tax authorities to their market value. The largest discrepancy is probably for housing. Housing capital should have an assessed tax value of 20-30 percent of the market value. For simplicity, we have multiplied that housing assets by a factor of 4. Moreover, one could have argued that wealth and housing capital is more appropriately captured at the family level, rather at the individual level; unfortunately, we are not able to do that at the moment of writing this commentary.

Using these data, we find that about 60 percent of the net wealth of individuals aged 20 years or more residing in Oslo in 2011, was owned by the 10 percent who comprise the upper part of the distribution of net wealth. The upper 10 percent owns 36 percent of the housing capital. Comparing some sub-groups, patterns that are even more interesting emerge. In figure 2, we compare net wealth and housing capital in Oslo for six age groups. We find, not very surprisingly, that net wealth increases over the life cycle and that housing capital is less unevenly distributed over the life cycle than is the net wealth. Note that we also found (not reported in detail here) that the relative spread of the wealth distribution increases considerably with age. For those aged below 40, the relative spread in the distribution of housing capital is lower than for net wealth, above the age of 60 this is reversed.

It should be stressed that the pattern of figure 2 should not be interpreted as a picture of any steady state life cycle pattern. It contains a combination of life cycle and cohort structures. The cohorts captured at the cross-section in 2011, has been very differently hit by the dramatic price patterns described in figure 1 above.

Figure 2 Net wealth and Housing Capital in 2011, by age, Normalised to 100 for the 51-60 year group



Source: Own calculations based on tax registers

Oslo is a high price area in Norway, and Norway is a high price country. Hypothetically, the high price reduces the opportunities of newcomers to the market. Consider for example individual aged between 41 and 50 years and compare three different subgroups:

i) Insiders defined as people who resided in Oslo, also in 2001.
ii) A group of outsiders defined as those who lived in one of three northernmost counties in Norway in 2001, and reside in Oslo in 2011.
iii) Immigrants to Norway in the years 2001-2006 who resided in Oslo in 2011.

The first thing we note is the median immigrant had zero housing wealth in 2001, i.e. more than 50% of the immigrants were tenants in 2011. We observe that among those originating in the north of Norway, the median housing capital were only 55% of that of the insiders. Similar patterns are found for net wealth also. The net wealth of the immigrants was 1.2 percent of that of the insiders, while that of the northern outsiders was 8.6 percent. Obviously, the explanation of this is complex. One of them is that individuals who consider moving between uncorrelated housing markets are far more exposed to house price risk, than those relocating within a local housing market (Nordvik 2001).

To repeat ourselves, the purpose of this rather sweeping and superficial visit to selected empirical topics is twofold. It intends to point towards some topics that we mean belong in the research agenda on housing and inequality that we interpret MMs article as a quest for. It also points towards a quest for eclectic willingness to utilise different kinds of data in order to reveal mechanisms causing inequalities, consequences of them and patterns in inequality.

Housing policy

According to MM *The second broad thrust of housing policies for the last thirty years, has shifted provision from state to the market, from public to private ownership and from tied dwelling to income related support*. This broad shift has been played out differently across countries. In the Norwegian case it was argued e.g. that there was no need for general housing subsidies anymore because there was no longer a general shortage of housing. The remaining major policy issue was the distribution of housing, which would be taken care of by income related support (Nordvik and Sørvoll 2014); the government was also to correct for market imperfections.

Focusing on policies for homeownership and tenure choice, the main arguments to favour and subsidise homeownership is that it may give rise to positive spill-overs for society (DiPasquale and Glaeser 1999). This is often used as an argument for non-taxation of the return on owner-occupied housing capital. Even taking account of such spill-overs one might question the rationality in subsidies to all owner-occupiers in a way that channels most tax-exemptions to those with the most expensive homes, who would probably have been owner-occupiers even in the absence of the subsidies. In order to understand the evolution of this kind of policies one need to use a political economy perspective rather than relying on normative theories of welfare optimisation or optimal taxation, just as MM argue:

A housing policy which favours homeownership will obviously have a direct effect on wealth distribution between households with different incomes and between homeowners and renters. There will also be an indirect effect as taxation/non-taxation obviously changes the pattern and level of home prices. A recent Norwegian study accounts for effects on demand and calculate house price effects of taxing housing capital in a similar way as other forms of capital and of concludes:

As housing is taxed leniently in Norway, increased taxation of housing stands out as a way of killing several birds with one stone: it generates tax revenue, moderates housing prices and increases efficiency. … I find that the housing tax increase would increase personal tax revenue by 11 percent and make the tax system more progressive. Housing prices would be reduced by 18 percent. (Bø 2015)

The effects of housing and other policies on household wealth and distribution is an important subject for research. MM states that: *There is an urgent need for a renewed political economy of housing policies*.

Concluding remarks

Thomas Piketty's volume has demonstrated the wide wealth and income disparities in our society, the growth we have seen over the last 30-40 years and mechanisms that could make future inequalities even larger. MM argue that this insight should penetrate the way we understand housing markets and policy and the way we perceive and asses housing market outcomes. We find these conclusions important for social research in general and for housing research in particular, and even more important for society and policy.

The distributional outcomes highlighted is often attributed to the working of capitalism. We find it important to remind ourselves that this is not the same as text-book capitalism where ownership of capital is the main source of power and further accumulation of capital. Capital in the late 20th century and in the 21st century is not only controlled by owners. The bureaucracy of large firms exercise a large power, and the leaders can accumulate a substantial amount of capital from this. Already 50 years ago Galbraith wrote: *In the last three decades there has been a steady accumulation of evidence on the shift of power from owners to managers within the modern large corporations…. The latter, though their ownership is normally negligible, are solid in control of the enterprise*. p 61, (Galbraith 1967). This is most probably part of the explanation of the massive and growing share of incomes clustered among the upper one and five percent of the income distribution.

MM use Piketty's book as a point of departure for their call for a renewed interest inequalities in the housing market and for the political economy of housing markets and policy. We believe and hope that this is followed up by the research community in the years to come. We will also remind the readers of the fact that Piketty's work was not possible only through analytical skills and insight, but also through tedious effort in collecting data across countries and time – and making them comparable. If the housing research community were able to coordinate collection of data over countries and time – and make them available (e.g. through a designated web site) it would create the ground for a huge step forward in the study of the political economy of housing policy. This in turn would enable us to extend the analyses of what really is the most important of our task, i.e. to be able to inform politicians about consequences, in terms of outcomes for individuals and families, of choices in the housing policy.

To summarise where the reflections on MMs article took us: We need to study in more detail how (e.g. wealth) inequalities feed into the housing conditions of real world individuals, what are the consequences of this for the individuals and society at large, and how housing market inequalities can be self-enforcing. It make sense to start out by (re-)reading MM's article, and it is a joy and a pleasure.

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