
Housing as a Form of Wealth: International Differences and the Role of Financial Innovation

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Data Sources* I will Draw On

- D. Christelis, D. Georgarakos, M. Haliassos, "Differences in Portfolios Across Countries: Economic Environment versus Household Characteristics", forthcoming in ***Review of Economics and Statistics***.
- Haliassos, M. (ed.), ***Financial Innovation and Economic Crisis***, MIT Press (forthcoming, 2012)

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The Uneven International Terrain of Household Wealth

Country/ Region	Number of Households	NET WEALTH		
		Quantiles		
		25	50	75
United States	13,073	40.0	162.1	437.0
Midwest	3,170	52.0	178.2	428.1
Northeast	2,125	39.7	193.5	475.9
South	5,138	29.9	113.0	326.0
West	2,399	53.0	228.5	582.0
Europe	25,394	27.3	140.6	294.6
Sweden	2,140	21.5	86.4	201.1
Denmark	1,176	12.8	100.6	242.6
Germany	2,002	11.8	95.4	272.6
Netherlands	1,954	9.6	140.4	336.4
Belgium	2,532	96.6	199.4	370.0
France	2,110	49.4	177.1	348.9
Switzerland	712	35.5	193.4	414.4
Austria	1,409	9.4	112.5	244.5
Italy	1,778	46.4	149.5	297.2
Spain	1,753	73.2	140.7	254.1
Greece	1,982	55.8	111.7	215.6
England	5,721	75.7	257.4	443.3

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Source: Christelis, Georgarakos, Haliassos
(forthcoming, REStat)

Computed using:
SHARE 2004, HRS 2004, ELSA 2004
(Households aged 50+)

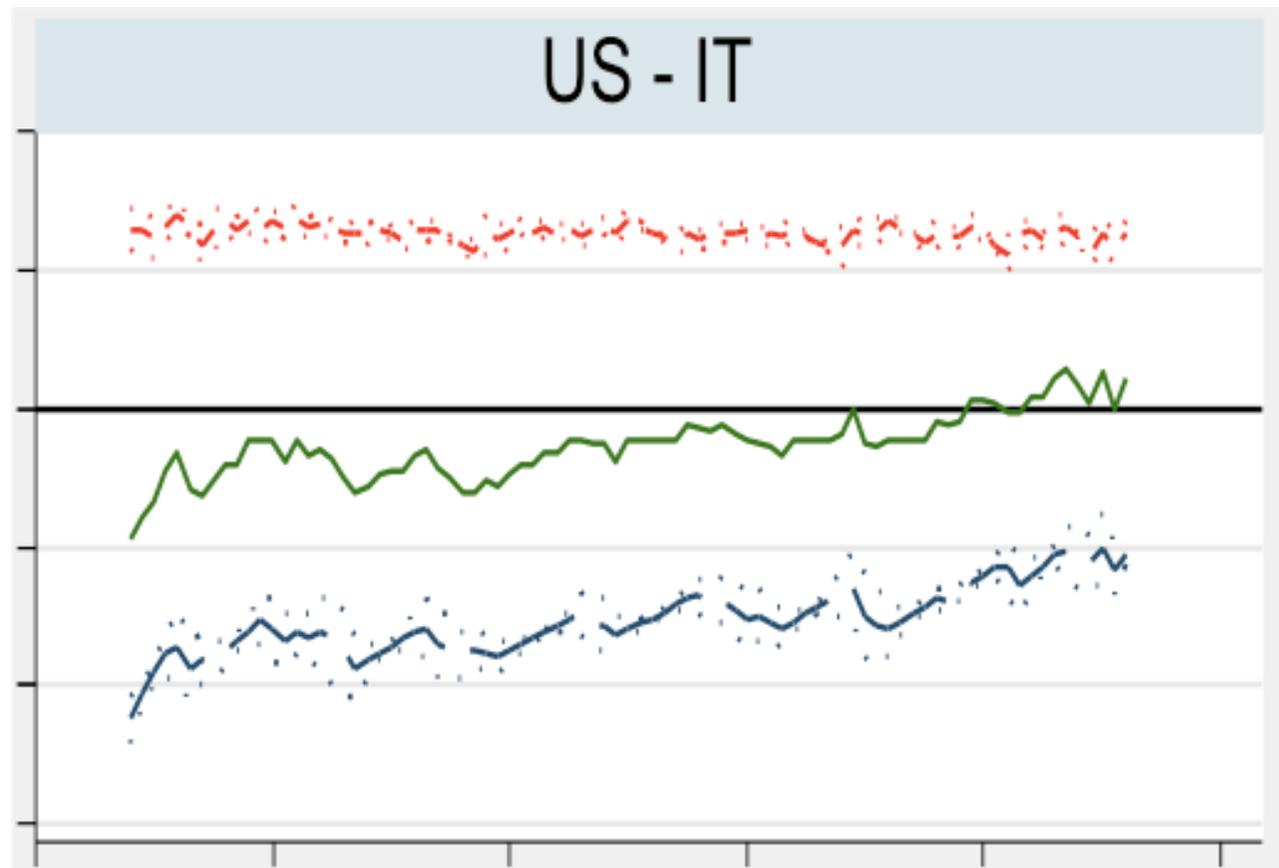
Units: '000s of 2004 US Dollars, PPP Adjusted

The Uneven International Terrain of Household Portfolios

Source: Christelis, Georgarakos, Haliassos (forthcoming, REStat): Households aged 50+ Units: '000s of 2004 US Dollars, PPP Adjusted

Country/ Region	Number of Households	NET WEALTH			Prevalence (%)	HOME			Prevalence (%)	MORTGAGE		
		Quantiles				Quantiles among owners				Quantiles among holders		
		25	50	75		25	50	75		25	50	75
United States	13,073	40.0	162.1	437.0	77.3	80.0	150.0	250.0	38.3	32.0	70.0	125.0
Midwest	3,170	52.0	178.2	428.1	80.9	82.0	132.0	200.0	39.3	30.0	65.0	105.0
Northeast	2,125	39.7	193.5	475.9	70.6	92.0	190.0	340.0	32.5	32.0	70.0	124.0
South	5,138	29.9	113.0	326.0	78.3	63.0	100.0	180.0	36.5	28.5	58.0	102.0
West	2,399	53.0	228.5	582.0	76.9	140.0	250.0	400.0	46.0	50.0	100.0	178.7
Europe	25,394	27.3	140.6	294.6	67.6	104.9	168.7	275.6	14.7	12.4	36.7	79.0
Sweden	2,140	21.5	86.4	201.1	68.9	51.2	92.1	153.5	40.2	15.2	30.7	57.0
Denmark	1,176	12.8	100.6	242.6	69.2	90.8	136.2	204.2	44.3	28.4	56.7	90.8
Germany	2,002	11.8	95.4	272.6	51.2	136.3	209.7	314.6	14.8	12.6	36.7	83.3
Netherlands	1,954	9.6	140.4	336.4	55.2	192.3	253.0	374.4	43.1	23.8	54.6	110.4
Belgium	2,532	96.6	199.4	370.0	80.0	127.4	173.6	254.8	11.9	5.2	14.4	32.7
France	2,110	49.4	177.1	348.9	72.2	124.1	186.2	310.4	11.9	7.9	23.7	51.7
Switzerland	712	35.5	193.4	414.4	54.8	229.5	317.4	459.1	45.3	51.0	104.6	201.3
Austria	1,409	9.4	112.5	244.5	56.7	108.0	162.0	270.0	9.2	1.9	10.8	43.2
Italy	1,778	46.4	149.5	297.2	75.1	95.4	168.7	281.2	5.6	9.6	27.0	56.2
Spain	1,753	73.2	140.7	254.1	86.9	84.1	131.3	219.7	9.7	9.5	30.2	58.6
Greece	1,982	55.8	111.7	215.6	84.3	62.0	95.5	148.9	5.5	5.0	18.6	37.2
England	5,721	75.7	257.4	443.3	76.1	191.5	275.7	398.3	16.8	10.7	27.6	63.3

Italian (and Spanish) older homeowners invest more in the house than US homeowners of similar characteristics



Source: Christelis, Georgarakos, Haliassos (forthcoming, REStat)

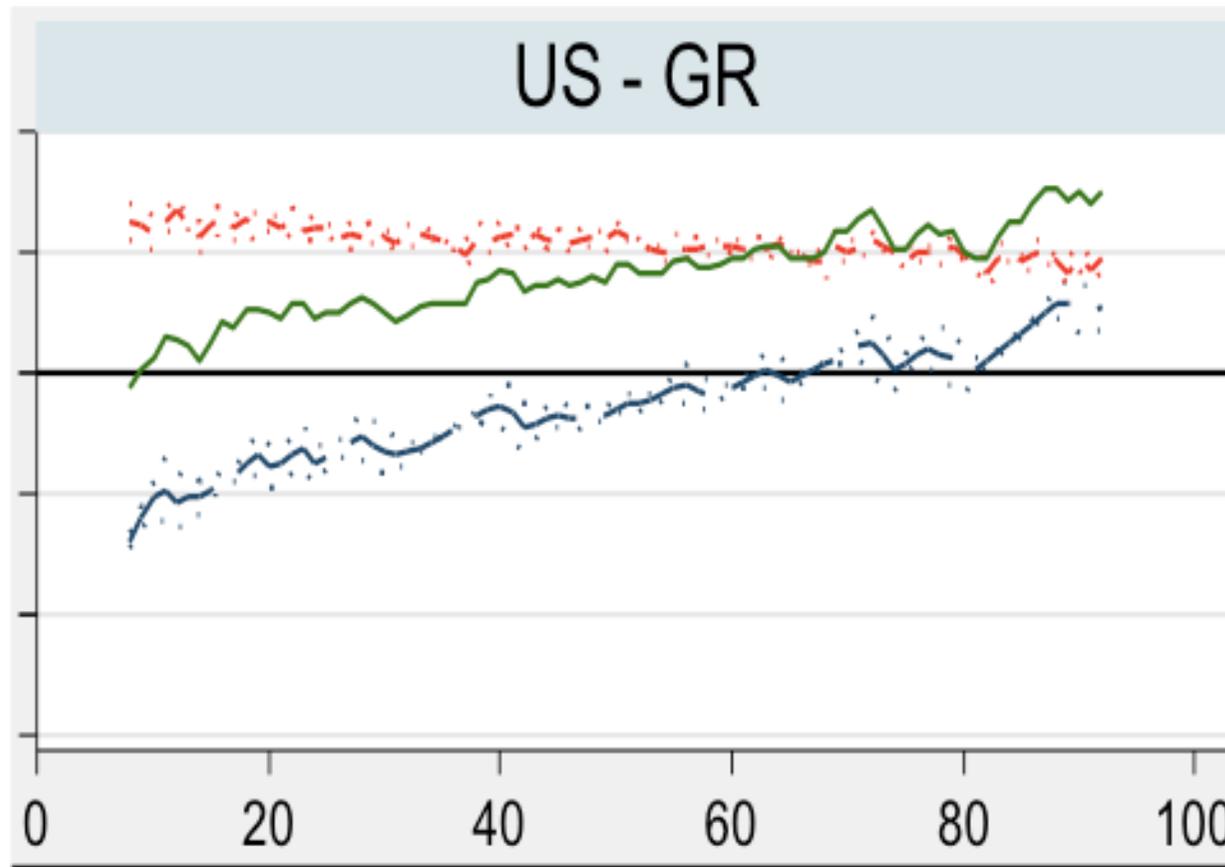
Computed using: SHARE 2004, HRS 2004, ELSA 2004 (Households aged 50+)

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The (smaller) 2/3 of older Greek homeowners invest more in the house than US households of similar characteristics



Source: Christelis, Georgarakos, Haliassos (forthcoming, REStat)

Computed using: SHARE 2004, HRS 2004, ELSA 2004 (Households aged 50+)

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Points so far

- **Home Values**

- Net wealth amounts of older households are large in fiscally troubled countries, even compared to some richer countries. This is especially so in the bottom half of the net wealth distribution.
- Homeownership (at least among older households) is widespread among fiscally troubled European countries, but less so in several of the richer countries.
- Among homeowners, the real size of investments in homes are bigger in Europe relative to the US, especially if one adjusts for differences in household characteristics.
 - This includes the fiscally troubled European countries
- Looking at homeowners only, the levels of investment in the house are bigger in richer European countries than in the fiscally troubled countries, comparing similar points in the distribution of house investment values.

- **Mortgages**

- The fraction of older households who have a mortgage on their primary residence is small in fiscally troubled countries, and certainly much smaller than that in several of the richer countries.
- Even among mortgage holders, amounts in Europe are small relative to the US (in 2004, prior to the subprime crisis), even after controlling for differences in household characteristics.

How Important is Housing for Net Wealth? The tale of three households*

2006-7 000s 2005 Euro, PPP	Net Wealth			Primary Residence			Home Mortgage			Home Equity		
	25	50	75	25	50	75	25	50	75	25	50	75
Austria	30.5	130.5	252.2	2.0	79.2	205.6	0.0	0.0	0.0	2.0	79.2	205.6
Germany	21.0	136.2	287.5	0.0	111.1	231.0	0.0	15.8	11.8	0.0	95.3	219.3
Sweden	39.6	135.3	292.0	0.0	85.3	245.2	0.0	9.4	31.5	0.0	76.0	213.7
Netherlands	14.0	170.5	335.2	0.0	170.3	286.5	0.0	44.7	24.9	0.0	125.6	261.6
Spain	124.4	228.6	419.8	124.8	207.3	286.6	10.6	0.0	0.0	114.2	207.3	286.6
Italy	69.8	190.3	347.8	57.7	176.8	295.2	0.0	19.2	0.0	57.7	157.6	295.2
France	91.0	234.3	433.4	32.7	200.3	320.5	0.0	0.0	9.7	32.7	200.3	310.7
Denmark	41.5	157.8	337.9	22.0	131.8	187.2	0.0	39.5	36.0	22.0	92.3	151.2
Greece	65.3	132.0	245.3	57.0	114.0	189.5	3.5	0.0	0.0	53.5	114.0	189.5
Switzerland	53.4	206.9	454.4	47.4	205.6	328.7	37.3	88.2	120.4	10.1	117.4	208.3
Belgium	122.6	244.5	413.4	95.6	229.8	307.5	12.4	0.0	2.9	83.2	229.8	304.6

*Thanks to Jian Li for research assistance

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How Important is Real Estate for Net Wealth? The tale of three households

2006-7 000s 2005 Euro, PPP	Net Wealth			Home Equity			Real Estate Equity		
	25	50	75	25	50	75	25	50	75
Austria	30.5	130.5	252.2	2.0	79.2	205.6	2.0	79.2	205.6
Germany	21.0	136.2	287.5	0.0	95.3	219.3	0.0	95.3	219.3
Sweden	39.6	135.3	292.0	0.0	76.0	213.7	0.0	87.0	213.7
Netherlands	14.0	170.5	335.2	0.0	125.6	261.6	0.0	125.6	274.4
Spain	124.4	228.6	419.8	114.2	207.3	286.6	114.2	207.3	305.6
Italy	69.8	190.3	347.8	57.7	157.6	295.2	57.7	171.1	295.2
France	91.0	234.3	433.4	32.7	200.3	310.7	32.7	211.8	357.5
Denmark	41.5	157.8	337.9	22.0	92.3	151.2	22.0	108.1	206.4
Greece	65.3	132.0	245.3	53.5	114.0	189.5	59.4	124.6	209.7
Switzerland	53.4	206.9	454.4	10.1	117.4	208.3	19.1	117.4	296.2
Belgium	122.6	244.5	413.4	83.2	229.8	304.6	83.2	229.8	304.6

Households in Fiscally Troubled Countries: Prodigal Sons?

- Real estate values are very important for wealth (and for consumption via wealth effects) in fiscally troubled countries
- Heavily indebted governments but not heavily indebted households
- Figures do not rule out overspending by households
- The parable of the prodigal son is inappropriate
 - If overspending occurred, it did not destroy the safety net
 - Although we do not know optimal wealth amounts, it makes sense to keep more wealth in less stable economies

Financial Innovation

- In principle, **home equity lines of credit and facilitation of reverse mortgages** could be used to make real estate more liquid and to prevent consumption from dragging the economy further down
- **Yet**, this is not going to be easy or advisable:
 - **Unpredictability** of how financial innovations will be used:
 - In the US, this positive financial innovation contributed to the subprime crisis and to the incidence of negative home equity
 - In Greece, **unlikely that either banks or consumers will want to take advantage** of such financial innovations to enhance liquidity of households against available collateral

Can We Keep Taxing Real Estate to Get out of the Crisis?

- Taxing real estate to resolve fiscal troubles:
 - Less subject to tax evasion, but:
 - It applies to the **entire range** of the wealth distribution
 - **Liquid component** of wealth **seems small** to absorb repeated tax charges
 - Salary reductions and unemployment make it **difficult to meet tax obligations from income flows** (as opposed to from accumulated assets)
 - Continued tax increases and salary cuts, in the absence of means and willingness to borrow against real estate wealth, are **likely to lead to fire sales of real estate**
 - This can result in **substantial redistribution of household wealth** towards those with available liquidity, households or companies, domestic or foreign

The Only Way Out

- It is imperative to implement the necessary reforms to boost economic growth and reduce the need for continuation of salary reductions and tax increases:
 - An efficient, smaller public sector devoted to facilitating establishment of dynamic, innovative, export-oriented private firms
 - An efficient justice system
 - A much broader productive base for high-quality goods and services
- Although results of reforms may take time to be observed, there will be important immediate effects on expectations and trust, both of domestic consumers and of international financial markets
 - **We cannot do without them!**