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Applied Economic & Social Research

Discussion of ‘Housing and the Measurement of Economic Inequality’ by Peter Siminski

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4th Australian Workshop on Public Finance, 13-14 June 2024

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Why is housing different to other things we consume?

Essentially because it is big. It materially affects economic wellbeing and its distribution

Housing costs as a share of disposable income: Approximately 17.5% on average (HILDA 2022; includes council rates and strata fees but excludes maintenance and repairs)

Home wealth (net of home debt) is about 40% of household net wealth.

(Note: focus is on the home rather than the housing stock more broadly)

Some conceptual considerations

- Imputed rental income vs income net of housing costs
  - Former is more conceptually sound (Level of housing consumption is a choice; and it is not clear what is the appropriate equivalence scale for after-housing income)
  - But latter is generally easier to measure/estimate
- Imputed rent needs to be net, not gross:
  - Imputed rental income = Gross rental value – interest on mortgage debt – ‘running costs’ (e.g., maintenance and repairs, rates, owners’ corporation/strata fees, insurance premiums) – depreciation expense [IR will often be negative]
- Capital gains should be net of additional investments (capital improvements/renovations)
  - Capital gain = ‘Observed’ capital gain - value of capital improvements
- Capital gains: Home is important, but we are still missing capital gains on 60% of net wealth if we only focus on the home.

Comments on the empirical analysis

Sensitivity analysis around IR and CG rates (5% and 3%) would be useful

Refinements to estimation of IR and CG would also be valuable:

- Estimates based on empirical data
- Heterogeneity in IR and CG rates across households at a point in time
  - IR – hedonic approach of ABS?
  - CG – type of property, location
- Variation in IR and CG rates over time
  - CG in particular is volatile. Some smoothing is probably sensible, but assuming it is constant over 22 years seems a bit extreme.
  - IR is currently a function only of equity, but interest rates change a lot over time, and so too therefore does the interest expense.

Implications for measures of inequality

Implications are somewhat complicated and not necessarily as expected (e.g., property price increases reduce inequality)

It is even more complicated when thinking about intergenerational transfers of housing wealth

Probably more important than effects on overall inequality are the effects of accounting for housing on the relative positions of different demographic groups. Higher-income but lower-wealth groups look relatively poorer (tend to be younger) and lower-income but higher-wealth groups look relatively richer.

Issue for measuring inequality of lifetime incomes: People who save/invest more will, cet. par., have higher lifetime incomes than people who save little. But this doesn't seem to be an inequality – it reflects a choice over both how much and when to consume → What is the right way to think about inequality of lifetime incomes/consumption?