

## Household finances, saving and inequality: an international perspective – conference held by the Bundesbank and the Max Planck Institute for Social Law and Social Policy

*Financial and real assets are distributed very differently among households of national economies across the globe. There can also be very wide disparities in their composition. Furthermore, there are often considerable differences between countries with regard to the distribution and composition of wealth. With this in mind, the Bundesbank, together with the Max Planck Institute for Social Law and Social Policy, organised a conference which was held on 21 and 22 March of this year. This article summarises the most important findings of that conference.*

*Micro datasets on the financial situation of households and their potential in analysis*

One purpose of the conference was to present the initial findings from surveys of households in Germany and other euro-area countries yielding information on their financial circumstances. Additionally, the conference was to investigate a series of questions that can be answered using relevant data.<sup>1</sup> Among the most important issues to which an answer was being sought at the conference were

- What determines the composition of household wealth?
- How do households prepare for retirement in terms of their asset decisions?
- What determines the acquisition of property, which typically accounts for a very significant part of household wealth?

Two lectures, by Professor Michael Hurd of the RAND Corporation and Professor Michael Haliassos of the University of Frankfurt, additionally dealt with issues which have found particular interest in connection with the latest financial and economic crisis.

- How did households' stock and housing wealth losses in the "Great Recession" in the United States affect their spending behaviour?

and

- Do we need to take special precautions to keep households out of financial trouble and, if so, what form should such measures take?

*Initial findings of German and European surveys on household finances*

Information on the initial findings of the Panel on Household Finances (PHF) has been provided by the preceding article on "Household wealth and finances in Germany – results of the Bundesbank study" (see pages 23 to 49). A paper analysing the composition of German households' wealth was also presented at the conference. In particular, the paper investigated the question of whether there are signs

that households have selected their assets sub-optimally with regard to return expectations and risk. In actual fact, there are indications that improvements are possible for some categories of households.

Alongside initial findings from the German panel, an account was given of impressions gained from the results of European surveys collected in parallel with the German data. Firstly, the results for the euro-area countries were compared with those for the United States. Secondly, initial attempts were made to explain the differences among the countries of the euro area. In Europe and the USA, wealth is distributed noticeably more unevenly than income. With regard to both variables, however, Europe is characterised by significantly greater homogeneity than the United States. Marked differences can also be observed in terms of borrowing: US households are more heavily in debt than households in Europe. Differences in wealth in Europe can largely be explained by three factors: very wide variations in levels of home ownership (with a comparatively small number of households living in their own homes in Germany and Austria, while home ownership is much more widespread in Spain and the Slovak Republic). Developments in house prices have differed considerably over the past few years. Finally, the importance of intergenerational transfers is not everywhere of equal relevance.

Along with the size and distribution of wealth, its composition is of major importance. This can give us indications of whether different categories of households are restricted, say, in their investment decisions, what their investment motives are, or how changes in the underlying conditions – such as general inflation or price changes in certain markets (such as the housing market or stock market) – affect households. Several papers at the conference

*Distribution of wealth in the USA more unequal than in Europe*

*Households' portfolio structure and spending behaviour important for understanding their situation*

<sup>1</sup> A selection of the papers presented and the conference programme may be found on the Deutsche Bundesbank's website at [www.bundesbank.de/Redaktion/EN/Termine/Research\\_centre/2013/2013\\_05\\_24\\_eltville.html](http://www.bundesbank.de/Redaktion/EN/Termine/Research_centre/2013/2013_05_24_eltville.html).

examined how the portfolio of financial wealth changes over the life cycle and what determines that change. In general, the results are in line with expectations: with age (or with declining life expectation), investment in stocks initially increases before falling again upon reaching retirement age. Conversely, fixed-interest assets then become more important.

*Wealthy households substitute more strongly between private saving and pension entitlements than poorer households*

These observations are consistent with the notion that retirement provision is a key motive for accumulating assets. Unfortunately, the available information on financial entitlements after retirement is still imprecise. This applies, in particular, to occupational pensions, which are becoming increasingly important. At the conference, an account was also given of the initial stages of a project being conducted by the Max Planck Institute for Social Law and Social Policy together with the Institute for Employment Research, the Research Institute of the German Federal Employment Agency, which is aimed at a better reporting and understanding of occupational pensions in Germany. Two other presentations discussed related topics: "Can the Dutch meet their own retirement expenditure goals" and, relating to households in Norway, "Heterogeneity in the offset effect of the pension wealth on other private wealth". In both cases, it was stressed that there is a considerable degree of heterogeneity. For example, wealthy households evidently substitute more heavily between private saving and pension entitlements than poor households. This reveals that talking about averages is, in many cases, of limited information value.

*Decision to acquire property heavily influenced by employment situation*

Possessing or seeking to possess property is a particularly important wealth decision. Understanding this decision is therefore of great interest. A study for Sweden showed, for example, that households attach major importance to their own employment situation when buying a home. These data can be used to identify, among other things, how potential risks of becoming unemployed influence the decision to buy a home.

The sharp losses in stocks and housing wealth during the recent crisis in the United States were taken by Michael Hurd as a basis for asking how the affected households changed their consumption expenditure in the aftermath. Among other things, it is important that such studies distinguish between households at different stages of life, since older persons, for example, not only possess more assets, but also, given a different life perspective, perhaps make different decisions. Overall, the US data point to marked reactions in consumption to the losses in stock and housing wealth, although the reaction to house prices was obviously stronger.

*US households' consumption reacted strongly to decline in house prices*

In a further presentation, Michael Haliassos gave an overview of possible precautionary measures designed to protect households from serious financial problems. In view of the associated costs, it initially appears obvious that such measures make sense. On the other hand, it is apparent that many of the proposed approaches may not produce the intended result. The proposal that households have to be kept away from certain investment instruments (or, conversely, that some investments should be especially recommended to households) seems to raise problems given that identical investments may be prudent for some households but not so for others. Nor is recommending better information and education for households in financial matters necessarily without problems: it can be seen that such measures may lead to households becoming overconfident and developing too great a risk appetite.

*Difficult to protect households against bad financial decisions*

Overall, the conference showed that data on household wealth can supply a great many insights that can be used to gain a better impression of the state of an economy. This can then be the starting point for a better assessment of the impact of economic policy measures and underlying institutional conditions.