Policy Brief

Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)

Inequalities in Household Wealth and Financial Insecurity of Households

July 2021

- Wealth is very unequally distributed. On average across OECD countries, the wealthiest ten percent of households own over half of all household wealth, a share that has increased since 2010 in two-thirds of the countries with available information.
- At the other end of the spectrum, households in the bottom half of the wealth distribution own little to no net wealth, leaving a large share of the population ill-equipped to cope with income shocks caused by the COVID-19 crisis.
- Around 2018, almost one in ten lower-income households were over-indebted, a higher share than before the global financial crisis for most countries with available data.
- In the run-up to the COVID-19 crisis, almost half of lower-income individuals lacked emergency savings, i.e. they had less than the equivalent of three weeks' household income put aside in the form of liquid assets to weather short-term income disruptions.
- Governments have a range of policy levers at their disposal to improve households' financial resilience by supporting poorer households to build up wealth, and to limit the high concentration of wealth at the top.

WEALTH INEQUALITY WAS ALREADY VERY HIGH AT THE ONSET OF THE COVID-19 CRISIS

The COVID-19 crisis has brought into the spotlight the key role that wealth can play in cushioning income shocks. While many wealthier households could afford waiting for the dust to settle, and some may even have seen the value of their assets surge, those with little or no wealth were often forced to take up debt or increase their borrowing to make ends meet (OECD, 2021[1]; Credit Suisse, 2021[2]).

At the onset of the crisis, wealth was highly concentrated at the top while many households held little to no net wealth. Large shares of the population were ill-equipped to cope with the labour market and income shocks triggered by the pandemic. OECD countries quickly put in place unprecedented measures to help households weather the economic impact of the pandemic. Although this support helped millions get by, it may often have arrived late or been insufficient to replace lost income (OECD, 2020[3]), such that many households had to draw on their savings to keep up their necessary expenditure. The situation was particularly challenging for indebted households, and those with little savings to draw on.

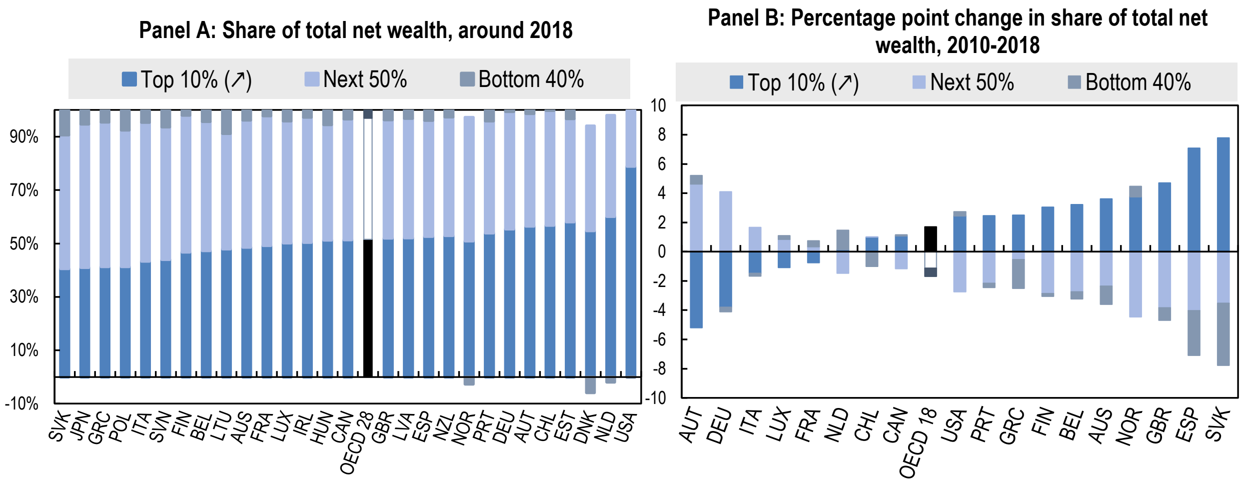
As OECD economies will continue to feel the repercussions of the COVID-19 crisis for some time, this Policy Brief highlights the pressing need for policies to rebuild the economic resilience of financially insecure and vulnerable households. The analysis in this brief mainly draws on the most recent OECD data collection on the distribution of household wealth. The latest-available data still refer to the pre-pandemic years, and have limits when it comes to capturing the top end of the wealth distribution in a way that is comparable across countries. Nonetheless, these data add value by allowing assessing the extent of financial insecurity of households as they entered the COVID-19 crisis. The data also allow shedding light on households with both low wealth *and* low income, on which the economic impact of the COVID-19 crisis has fallen most heavily.

In most countries, households at the lower half of the wealth distribution have little to no net wealth. Around 2018, across the OECD on average, the 40% of households with the lowest private net wealth held only 3% of total household wealth. In some countries, these households even owned negative net wealth, meaning that their debt exceeded the total value of their assets.

Instead, wealth is highly concentrated at the top. Over half (52%) of the wealth "pie" was held by the wealthiest 10% of households (Figure 1, Panel A). Household net wealth was most unequally distributed in the United States, where the wealthiest 10% of households owned close to 80% of total wealth. The concentration at the top was also high (top-10%-shares above 55%) in Austria, Chile, Estonia, Denmark, Germany and the Netherlands. A high concentration of wealth can have major social, economic and political impacts (Atkinson, 2015[3]).

The growth in net wealth levels has moreover been very uneven across the distribution. On average, wealth levels for the top 10% have grown by 13% in real terms over the past decade, and wealth for the next 50% has increased by 6%. Meanwhile, the bottom 40% saw their average wealth *shrink* by more than 12%. This resulted in widening wealth gaps, with the wealth shares of the wealthiest 10% increasing at the expense of the remaining 90% of households. This development affected most countries, with Austria and Germany being the main exceptions (Figure 1, Panel B).

Figure 1. The wealthiest 10% of households hold 52% of total net wealth, a share that over the past decade has increased in the majority of OECD countries with available data



Note: The OECD value is the unweighted average of the countries with available data. For information on reference years, see Table 2 in the Annex. For Denmark, the Netherlands and Norway, data are based on registers or surveys that typically better capture the very rich.
Source: *OECD Wealth Distribution Database*, https://oe.cd/wealth.

Households in the bottom half of the wealth distribution thus entered the COVID-19 crisis with little or no wealth. The composition of their wealth matters too. When an economic shock hits, many households are forced to fall back on liquid assets and savings to stay afloat. The lion's share of household wealth, however, is made up of real-estate, and particularly so for households in the lower part of the wealth distribution. The main residence accounts for 61% of gross assets for the bottom 40% of households, while this share is only 34% among the top 10% (Figure 2). This means that lower-wealth households are less able to rely on financial wealth as a source of resilience. Indeed, financial assets – which often are more easily liquidated – are much more prevalent at the top: they represent 40% of gross assets for the wealthiest 10% of households, as compared to only 18% for the bottom 40%.

The composition of financial assets varies substantially along the distribution. Low-risk financial assets (bank deposits and bonds) comprise more than 60% of the financial assets for households in the bottom 40% of the wealth distribution, a share that is three times lower for the top 10%. Wealthier households tend to hold financial assets that carry more risk but also have higher average returns (e.g. stocks and investment funds).

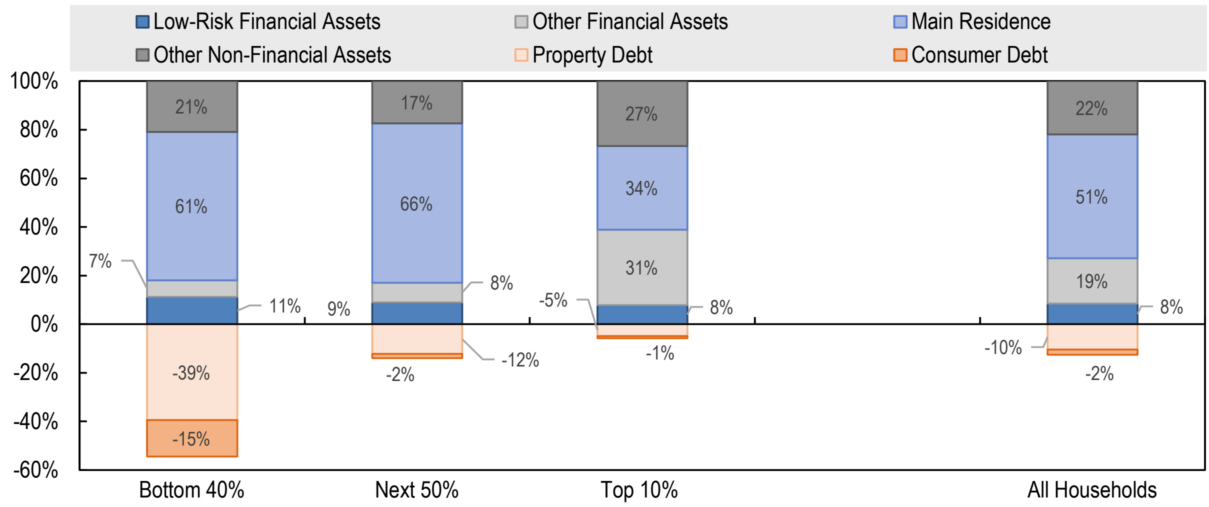
Low-wealth households also have much higher debt (expressed as share of total assets) than wealthier households: liabilities account for 56% of gross wealth among the bottom 40% of households but only 6% for the top 10%. Property debt is the main form, but consumer debt (e.g. credit card debt and instalment loans) is also important for the bottom 40%, where it accounts for almost 30% of total debt. While consumer debt can help support the economic well-being of disadvantaged households, it can also be a sign of stretched living standards especially when combined with little or no financial wealth, thus leaving these households exposed to future financial shocks.

Differences in wealth composition between the top and the bottom of the wealth distribution have played a decisive role in the evolution of wealth inequality portrayed above (Figure 1, Panel B). Over the past decade, the growth in stock prices outpaced that of house prices: the former surged 86% since the 2009 low (OECD, 2021), compared to an increase of 45% for the latter over the same period (OECD, 2021). This implies that the gains experienced by wealthiest households mainly reflect higher rates of return of capital and dividends.

In most countries where wealth inequality increased, financial assets held by the wealthiest 10% represent a larger share of the wealth "pie" now than they did in 2010. In Norway, for example, the share of financial assets owned by the wealthiest 10% of households made up one third of total net wealth in 2018, up from one quarter in 2012.

Figure 2. Portfolio structures vary significantly across households with different levels of wealth

Share of total assets, OECD average, around 2018



Note: Liabilities are reported with a negative sign. For information on reference years, please refer to Table 2 in the Annex.
Source: *OECD Wealth Distribution Database*, https://oe.cd/wealth.

While stock markets plummeted when the COVID-19 crisis hit, they rebounded quickly – in part propelled by expansionary monetary policies (Rawdanowicz, Bouis and Watanabe, 2013[5]) put in place to support the economy during the pandemic – and in many countries they have now reached record highs. This could have disproportionately favoured wealthier and higher-income households who typically hold higher-returning stocks. And yet, changes in wealth levels depend not only on changes in the value of *existing* assets but also on *additional* savings. There is evidence that higher-income households increased their saving rate over the past year, largely due to a fall in spending on non-essential items during lockdowns. At the same time, a large share of households that did not have much wealth to begin with were forced to run down their savings or incur debt as they grappled with increased economic hardship.

MANY LOWER-INCOME HOUSEHOLDS ENTERED THE COVID-19 CRISIS ALREADY LADEN WITH DEBT…

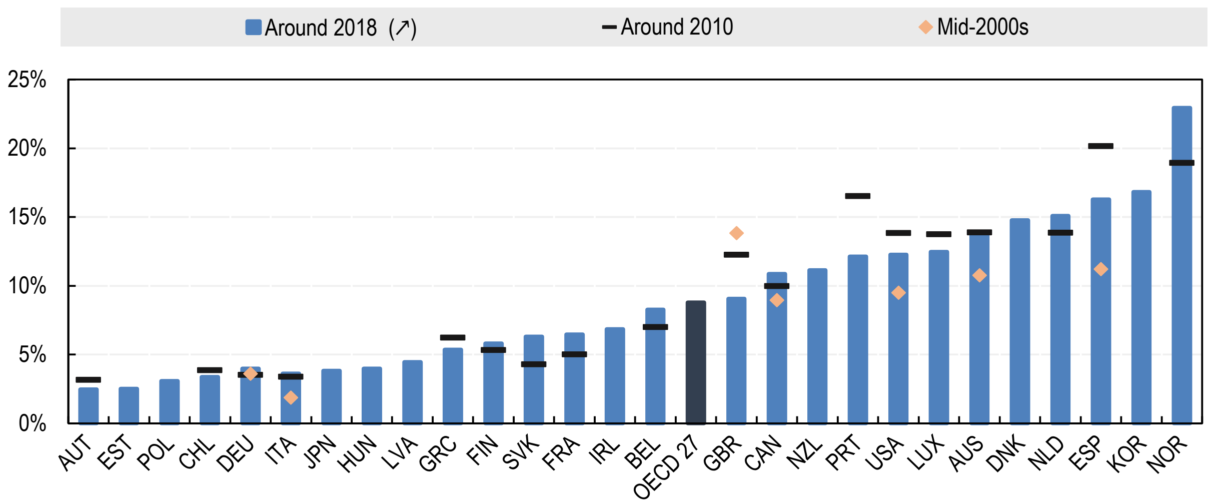
Before the pandemic hit, household debt was already high. Around 2018, one in every two households across the OECD had *some* form of debt; this share exceeded three in four in Norway, the United States, New Zealand and Denmark but was just one in five in Italy and in Greece. However, the burden and the form of debts vary greatly across the *income distribution*. While higher-income households tend to have higher debt loads, debt payments as a proportion of household disposable income are larger for lower-income households: across countries in the Euro-zone, the median debt service ratio (the share of income used for debt repayment) for indebted lower-income (the bottom 40%) households was 20%, compared to 12% for households in the top income decile. High debt repayments hinder the ability of lower-income households to manage debt while meeting their basic costs of living. As the debt payment deferral plans put in place by many governments and financial institutions are gradually being lifted, debt service ratios are likely to rise, thus increasing the risk of insolvency for indebted lower-income households.

Lower-income households are also more likely to rely on more expensive borrowing, with a higher burden in the form of consumer debt, often used to finance essential and day-to-day expenses or to pay down existing mortgages. Almost 80% of indebted lower-income households owed consumer debt, while only 30% carried mortgage debt – the respective shares were 58% and 62% for indebted households in the top 10% of the income distribution. Interest rates on consumer loans are typically higher than those on mortgages; it is therefore a source for concern to see the proportion of lower-income households carrying consumer debt rising in many countries in recent years.

Household debt, even among lower-income households, is not a warning signal per se. It is, however, a threat to household financial resilience when households become over-indebted, e.g. when their debt-to-income ratio becomes larger than three, and more exposed to significant risks in the event of sudden falls of their income. Over-indebtedness concerns almost one in ten lower-income households in the OECD on average, ranging from around 2% in Austria, Poland, Germany and Estonia to 15% and above in Norway, Korea, the Netherlands and Denmark. Since around 2010, the share of over-indebted lower-income households has not considerably changed in most countries, except in Spain, Portugal and the United Kingdom, where it fell, and in Norway, where it increased (Figure 3).

As they geared up to face the second economic crisis in just over a decade, lower-income indebted households had often not recovered from the previous downturn. In the two decades leading up to the global financial crisis, most OECD countries experienced unprecedented levels of household indebtedness. As credit became more easily available for heavily indebted borrowers, lower-income households often took advantage of property debt to sustain their standard of living in response to stagnating incomes. Under booming housing markets, homeowners started borrowing against their increased collateral to fund spending on consumer goods and services. All in all, indebted lower-income households became overleveraged and extremely vulnerable to the risk of income shocks and drops in assets prices, risks that materialised with the financial crisis. After the global financial crisis, lower-income households tried to deleverage and pay off their debt, but their efforts have often been constrained by stagnating income, and many of them had to borrow anew. Across the seven countries where data for the early 2000s are available, lower-income households carried higher debt levels in 2018 than in the mid-2000s in five of them (Australia, Canada, the United States, Italy and Spain, Figure 3).

Figure 3. Almost one in ten lower-income households were over-indebted at the onset of the crisis



Note: Over-indebted households are those with a debt-to-disposable income ratio larger than three. Lower-income households refer to households in the bottom 40% of the distribution of household disposable income. The OECD value is the unweighted average of the countries with available data for around 2018. Reference years for 'around 2018' and 'around 2010' are specified in Table 2 in the Annex. Results for the 'mid-2000s' refer to 2004 for Italy, 2005 for Canada and Spain, 2006 for Australia and 2007 for Germany, the United Kingdom and the United States.

Source: *OECD Wealth Distribution Database*, https://oe.cd/wealth and OECD computations from the Eurosystem Household Finance and Consumption Survey, https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html, and from the Luxembourg Wealth Study, https://www.lisdatacenter.org/our-data/lws-database/.

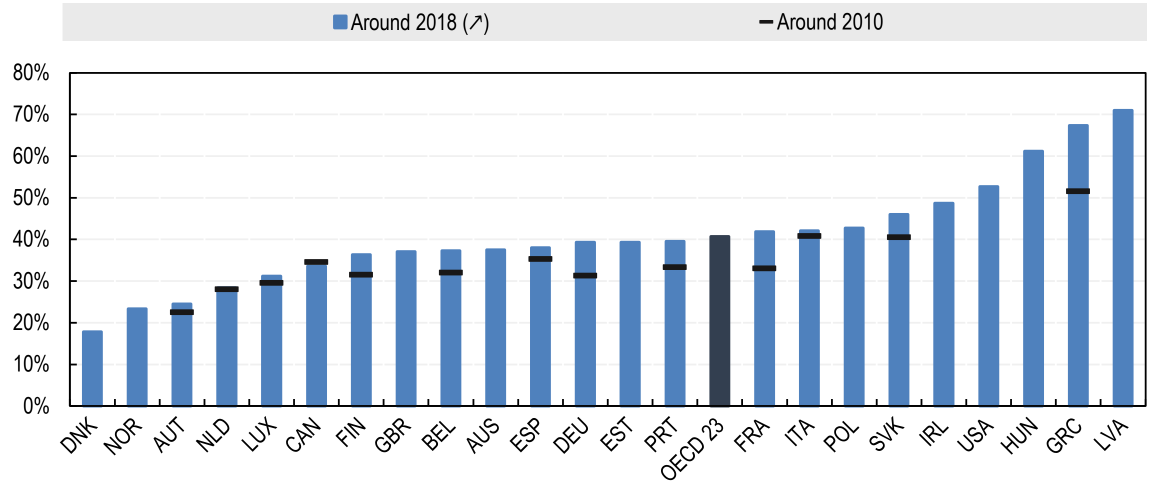
…AND MANY MORE HAD LOW LIQUID BUFFERS TO TAP IN AN EMERGENCY

Beyond over-indebtedness, another threat to households' financial resilience is the absence of emergency savings and liquid assets (mostly deposits, bonds and stocks) to maintain their current living standards when confronting an unexpected fall in household income. Although there may be scope to reduce certain forms of expenditure, this is often more difficult for those at the bottom of the income distribution who already are on a shoestring budget.

In response to the COVID-19 crisis, all OECD governments provided unprecedented relief interventions during 2020. However, income replacement may often have arrived late or been insufficient, calling on households to use their savings to cover lost wages and meet their basic economic needs. This most likely had a disproportionate impact on those with low incomes and minimal savings. The recent OECD *Risks that Matter* survey reveals that, since the start of the crisis, about one in four respondents reported having taken money out of their own savings or sold assets to mitigate financial hardship, with this proportion being close to one in two for lower-income respondents who experienced job loss in their households (OECD, 2021[2]).

Looking at the extent to which lower-income individuals can rely on emergency savings and liquid assets in the event of a sudden fall in income is therefore important. Already in 2018, in the average OECD country more than 40% of lower-income individuals did not have access to sufficient savings they could draw upon to weather a fall in household income, i.e. they had less than the equivalent of three weeks' household disposable income put aside in the form of emergency savings. The scope of the problem varied widely across countries: over two in three lower-income individuals had insufficient liquid assets to preserve their living standards in Greece and Latvia, but less than one in four in Denmark and Norway. Over the past decade, these shares remained high or even increased in all countries (Figure 4).

Figure 4. In the run-up to the crisis, two out of five lower-income individuals lacked sufficient liquid financial buffers to cope with a three weeks' loss of income



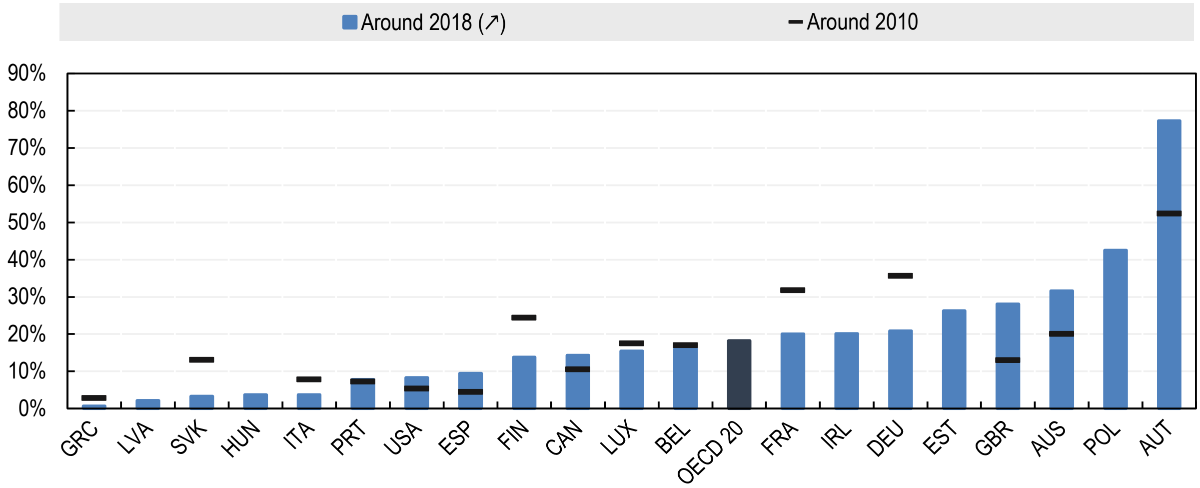
Note: The OECD value is the unweighted average of the countries with available data. Liquid financial buffers are the sum of currency and deposits; bonds and other debt securities; mutual funds and other investment funds; and other non-pension financial assets. Lower-income individuals refer to individuals living in households in the bottom 40% of the distribution of household disposable income. For information on reference years, refer to Table 2 in the Annex.
Source: *OECD Wealth Distribution Database*, https://oe.cd/wealth and OECD computations from the Eurosystem Household Finance and Consumption Survey, https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html.

Some population groups, find it more difficult than others to endure a short period of income disruption by relying on their liquid assets. Younger people, those living in large households and, in particular, single parents are less likely to be able to absorb a short-term income shock by drawing down on their savings. As some of these groups have borne the brunt of the economic damage inflicted by the pandemic, these patterns are likely to have increased over the past year.

High debt and missing wealth buffers (liquid assets) are the two ingredients of financial insecurity of households. Combining them into one indicator allows assessing the precariousness of the overall financial situation of indebted lower-income households. Figure 5 shows the liquid-assets-to-debt ratio for the typical indebted household in the bottom 40% of the income distribution, and thus provides an indication of the ability to pay off current debt obligations in an emergency without relying on additional borrowings or selling less liquidable assets. In the average OECD country, the typical indebted lower-income household owns liquid financial assets worth 18% of their debt, with this value ranging from 1% in Greece to almost 80% in Austria. Over the past decade, in about half of the countries with available information debt levels for the median indebted lower-income household have increased faster than its liquid assets implying a more precarious financial situation.

Figure 5. On average, the liquid financial assets held by the typical indebted lower-income household cover less than 20% of its debt

Median liquid-assets-to-debt ratio for indebted lower-income households



Note: Lower-income households refer to households in the bottom 40% of the distribution of household disposable income. Liquid financial assets are the sum of currency and deposits; bonds and other debt securities; mutual funds and other investment funds; and other non-pension financial assets. The OECD value is the unweighted average of the countries with available data for around 2018. For information on reference years, refer to Table 2 in the Annex.

Source: OECD computations from the Eurosystem Household Finance and Consumption Survey, https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html, and from the Luxembourg Wealth Study, https://www.lisdatacenter.org/our-data/lws-database/.

WHAT CAN POLICY MAKERS DO?

Policy makers have a range of instruments and tools at hand to increase the financial resilience of vulnerable households, and to limit the increasing wealth concentration at the top end of the distribution. A number of those are discussed in (OECD, 2021[4]; 2018[5]) and (Balestra et al., 2021[6]) and include measures along the following principles:

- Support vulnerable lower-income and lower-wealth households' capacity to save and accumulate wealth:
  - Develop attractive savings schemes for small savers. Where tax-preferred accounts are available to encourage household savings, ensure that these are targeted at lower-income lower-wealth households through deposit limits and/or capped (e.g. annual) contributions;
  - Enhance the neutrality and progressivity of taxes on household savings by reducing the differences in tax treatment applying to different types of capital assets, e.g. by limiting tax exemptions on capital gains;
  - Limit or cap mortgage interest deductibility, as such deductibility tends to provide greater benefits to wealthier households in absolute terms;
  - Consider schemes of minimum capital endowments ("minimum inheritance") for young adults, as a starting capital for funding education or starting a business;

- Strengthen financial literacy by helping individuals and households navigate the challenges and opportunities of financial markets and promoting good budgeting, planning and saving practices;
- Review the design of asset tests in social insurance programmes, to avoid discouraging low-income households from accumulating wealth and thereby creating poverty traps;
- Design equitable homeownership support programmes for younger and lower-income households.

- Strengthen the progressivity of tax and spending and ensure that all wealthy households contribute to the financing of public services:
    - Adequately tax personal capital income (dividends, interest, capital gains), which tends to be concentrated at the top of the income and wealth distribution and often benefits from preferential tax treatment;
    - Consider making recurrent taxes on immovable property progressive, and ensure that they are levied on regularly updated property values;
    - Consider making better use of well-designed inheritance and gift taxation, by scaling back regressive tax exemptions and reliefs, limiting opportunities for tax planning and avoidance, and taxing wealth transfers at progressive rates. This may require addressing political obstacles often associated with inheritance tax reforms by providing information on inherited wealth and inequality, the way inheritance taxes work and who they apply to;
    - Possibly consider ways to tax beneficiaries on wealth transfers they receive over their life through a tax on lifetime wealth transfers;
    - Where annual wealth taxes are levied, ensure that they are well-designed and effectively levied on the wealthiest households by having relatively high tax exemption thresholds, scaling back tax exemptions and reliefs that tend to be regressive, and addressing tax avoidance;
    - Ensure the integrity of tax systems by limiting opportunities for aggressive tax planning and avoidance, and strengthen efforts to combat tax evasion. In particular, continue to make progress on international tax transparency through the exchange of information between tax administrations to combat offshore tax evasion.

References and further reading

Atkinson, A. (2015), *Inequality: What Can Be Done?*, Harvard University Press. [4]

Balestra, C. et al. (2021), "Inequalities in household wealth – Trends, Drivers and Policy Implications", *OECD Social, Employment and Migration Working Papers*, OECD Publishing, Paris, forthcoming. [9]

Bangham, G. and J. Leslie (2020), *Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain*, https://www.resolutionfoundation.org/publications/. [12]

Brys, B. et al. (2016), *Tax Design for Inclusive Economic Growth*, OECD Publishing, Paris, https://doi.org/10.1787/5jlv74ggk0g7-en. [11]

Credit Suisse (2021), *Global wealth report*, Credit Suisse Research Department, Zürich. [2]

Eurofound (2020), *Living, working and COVID-19*, COVID-19 series, Publications Office of the European Union, Luxembourg, http://dx.doi.org/10.2806/76040. [10]

OECD (2021), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris, https://dx.doi.org/10.1787/e2879a7d-en. [7]

OECD (2021), *OECD Economic Outlook, Interim Report March 2021*, OECD Publishing, Paris, https://dx.doi.org/10.1787/34bfd999-en. [1]

OECD (2021), *Risks that matter 2020: The long reach of COVID-19*, OECD Publishing, Paris, https://doi.org/10.1787/44932654-en. [6]

OECD (2020), *Job retention schemes during the COVID-19 lockdown and beyond - OECD*, OECD Publishing, Paris, https://read.oecd-ilibrary.org/view/?ref=135_135415-6bardplc5q&title=Job-retention-schemes-during-the-COVID-19-lockdown-and-beyond (accessed on 1 July 2021). [3]

OECD (2018), *The Role and Design of Net Wealth Taxes in the OECD*, OECD Tax Policy Studies, No. 26, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264290303-en. [8]

Rawdanowicz, Ł., R. Bouis and S. Watanabe (2013), “The Benefits and Costs of Highly Expansionary Monetary Policy”*, OECD Economics Department Working Papers*, No. 1082, OECD Publishing, Paris, https://dx.doi.org/10.1787/5k41zq8lwj9v-en. [5]

Contacts

For more information contact us: wellbeing@oecd.org.

OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (WISE)

www.oecd.org/wise

This document was produced with the financial assistance of the European Union. The views expressed herein can in no way be taken to reflect the official opinion of the European Union.