

# Doesn't real estate capital really contribute to inequality?

By [Guillaume Allègre](#) and [Xavier Timbeau](#)

[In a response to \*Capital in the twenty-first century\*, Odran Bonnet, Pierre-Henri Bono, Guillaume Chapelle and Etienne Wasmer \(2014\)](#) attempt to show that the book's conclusions regarding an explosion in wealth inequality are “not plausible”. The authors point out an inconsistency in Thomas Piketty's thesis: the model of capital accumulation is implicitly a model of the accumulation of productive capital, which is inconsistent with the decision to include real estate capital at its market value in measuring capital. If valued correctly, the ratio of capital to income would have remained stable in France, Britain, the United States and Canada, which contradicts the thesis of Piketty's work.

In [OFCE Briefing Note, no.9/2015 \(“Does housing wealth contribute to wealth inequality? A tale of two New York”\)](#), we respond that the authors minimize the contribution of housing to inequality. In particular, we do not believe that trends in real estate prices have “second order effects (actual distributional effects) that are attenuated”. As is often the case, the disagreement is due in part to a lack of consensus about what kind of inequality actually matters: inequality in wealth? Income? Consumption? The potentially divergent dynamics of these inequalities? The disagreement is also due to the type of model used. The authors use a dynastic model in which property is passed from parents to children and grandchildren. In this model, changes in real estate prices do not have any real effect. This model is not relevant to accounting for inequalities generated by property in a society where people are mobile and have different life projects from

their parents.

The housing bubble could fuel the development of inequality. Home ownership in the world's metropolises is more and more becoming a closed club for the wealthy, which partitions young people between those with social, educational or financial capital, who can acquire property, and those who can only rent or move to less prosperous areas, with the consequence of further reducing their access to different types of capital. Would it not be better to build enough for everyone to find housing at a price that is in line with the amenities offered? Isn't it apparent that this latter situation is more egalitarian than the former?

For more on this, see: [Allègre, G. and X. Timbeau, 2014 : "Welcome to Nouillorc : Le capital-logement ne contribue-t-il vraiment pas aux inégalités?", Note de l'OFCE, no. 42 of 25 June 2014.](#)

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# Unemployment insurance for the euro zone?

By [Xavier Timbeau](#)

In the latest publication of France's Treasury Department, [Lettre Trésor-Eco, no. 132, June 2014](#) (Ministère des Finances et des Comptes publics and Ministère de l'Économie du Redressement productif et du Numérique), Thomas Lellouch and Arthur Sode develop the operating methods and the merits of a common unemployment insurance for the euro zone. They specify the main steps of how it would be applied, which would ensure

neutrality between the Member States. They argue for harmonized employment and labour market policies, leading in the long term to a single contribution rate in the euro zone:

- “Harmonization at the euro zone level of an unemployment insurance component would provide the euro zone a new solidarity instrument capable of giving a social Europe real substance while ensuring greater stability of the zone as a whole...

- This common base could compensate e.g. those who are unemployed less than one year (the most cyclical component) at 50% of their past salary, with financing determined on a harmonized base (e.g. payroll). It would be supplemented by national compensation in accordance with the preferences of each state, thus ensuring the continuation of the current level of compensation...

- Modulating the contribution rate of each member according to its unemployment level, with regular updates based on past trends, would ensure *ex ante* budget neutrality between the Member States...

- In the longer term, and after the unemployment rates of the various Member States converge, a system marking greater solidarity between the Member States could be considered, with financing through a single contribution rate ...”.

### **New solidarity, but posing three problems ...**

Unemployment insurance functions as an important automatic stabilizer. Having a common system for the euro zone members would have made possible significant transfers during the crisis we have just been through. Based on the scheme proposed by the authors (pooling the most cyclical component), Spain could have benefited from almost 35 billion euros by end 2012, mainly from Germany and France. This would not be sufficient to cancel Spain's public deficit, but it would have kept down its level.

A system like this could play a major role in avoiding the sovereign debt crises that dry up a State's credit. It would introduce solidarity and neutral transfers during cycles, but would be responsive to the state of the cycle.

However, this proposal raises three problems: the first is that unemployment insurance systems are the fruit of a national social compromise that has won general acceptance and is consistent with the rest of the country's labour market policies, whether these are active policies or not. A European unemployment insurance component built on top of national systems could lead to confusion and to questions about the national balance. This could disrupt the social dialogue, since the social partners would have a potential resource for which they are not responsible, in addition to the issue of whether the European authorities or partner countries might also wish to have a say. Furthermore, unemployment insurance is often a sensitive subject, as was seen by the issue of entertainers and artists (*intermittents*) in France in early summer 2014.

This could be solved by limiting the sharing to macroeconomic transfers, independent of national arrangements. But, and this is the second problem, to ensure that transfers between states do not become permanent, the transfers need to be balanced over the business cycle. This requires a procedure for identification of the cycle that the stakeholders agree on. The recent experiences of the crisis and the calculation of structural deficits show that this is far from the case today. Another option would be to "replenish" the system prior to using it by accumulating contributions over a number of years before a major downturn. It would suffice to limit use to what has been accumulated to resolve discrepancies. But then the system would be bereft of value in the face of a systemic crisis. The day the buffer collapses, the Kings would be as naked as before. At best the crisis is delayed, at worst it is aggravated.

A final option would be to give up balancing the transfers *a priori* (or by the mechanics of the way it operates), leaving it to polarize gradually one way or another and to ensure an asymptotic convergence. But in this case the system could lead to undesired structural transfers that could very well call it into question.

Spain for instance has high unemployment, well above its structural rate; entering into a transfer system based on the differences between current unemployment and structural unemployment could be done only on an equilibrium basis, or would run the risk of a long-lasting initial transfer.

This then raises the third issue, governance. It is difficult to design such a system without implying, at least potentially, significant transfers between States. How could such transfers be justified without a legitimate common representation? Furthermore, what could be done to avoid these transfers becoming an instrument for control of macroeconomic policy as a whole? The establishment of a banking union is a reminder of how key this problem is. Likewise, Spain's refusal to submit to the conditions set for a conventional assistance program (EU / IMF) clearly indicates that in the absence of legitimate and sincere solidarity, the beneficiaries of transfers will be as suspicious as the payers.