The Household Wealth Distribution in Spain: 
The Role of Housing and Financial Wealth

(Preliminary version)

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Abstract

We analyze the distribution of household wealth in Spain using the first wave of 
the Spanish Survey of Household Finances conducted by the Bank of Spain in 2002. 
We study the distribution of the different wealth components and, using inequal-
ity decomposition techniques, we assess the contribution of each element to overall 
wealth inequality. We find that household wealth is more unequally distributed 
than income, while housing wealth is much more evenly distributed than financial 
wealth. Initially, the results regarding the contribution of housing wealth to wealth 
inequality are contradictory. However, once we impose the uniform additions prop-
erty proposed by Morduch and Sicular (2002) to be satisfied, our results suggest 
that housing wealth contributes negatively to wealth inequality. This contribution is 
the result of two opposite forces: while gross housing contributes to reduce wealth 
inequality, housing debt contributes to increase it. Finally, financial wealth is a 
disequalizing factor whatever the decomposition rule considered.

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1 Introduction

The standard indicators of household economic well-being most commonly employed in welfare distribution analysis are based on money income. However it is well known that these indicators ignore certain crucial determinants of families’ welfare. In particular, they do not consider the important contribution of household wealth to household well-being.\(^1\) For instance, as Barrett and McPeak (2006) suggest, assets are the main instrument households have to insure themselves against risk. Thus, wealth is a source of liquidity for families in times of economic stress, such as those imposed by unemployment, sickness or family break-up. Moreover, wealth is a source of consumption, independent of the income it provides, because assets can be converted into cash and thus can cover immediate consumption needs. Similarly, certain types of assets, like housing, provide services directly to owners. Therefore, if we want to improve our knowledge on the distribution of well-being we need to investigate how the wealth dimension of welfare is distributed.

Empirical analysis on wealth distribution has evolved considerably since household surveys of assets and debts have become available. However, the first wave of the Spanish Survey of Household Finances (Encuesta Financiera de las Familias, EFF), conducted by the Bank of Spain in 2002, is the first household survey available in Spain for performing wealth distribution analysis.\(^2\) As a consequence, previous research on the distribution of wealth in Spain is scarce. Bover (2005) is the first work that analyzes the distribution of wealth in Spain. She reports, using the EFF data base, the average and median wealth holdings as well as the asset portfolio composition for different types of households. Bover et al. (2005) compare the distribution of wealth in Spain with that in Italy, United States and United Kingdom. Their results suggest that, according to the relative difference between the 25\(^{th}\) and 75\(^{th}\) percentiles, the distribution of wealth among Spanish households is the most equal of the four countries. Finally, to our knowledge, the only work on wealth distribution not based on the first wave of the EFF corresponds to Alvaredo and Saez (2006). These authors estimate top net worth, financial wealth and gross income shares for the period 1933-2002 using the personal income and wealth tax return statistics. They

\(^1\)Wolff, Zacharias and Caner (2005) analyze the effect of including wealth and public consumption when measuring household welfare. They find that measured inequality increases when imputed rent and annuities from wealth are added to income. In contrast, including public consumption reduces inequality.

\(^2\)This survey will be included in the Luxembourg Wealth Study (LWS) data base in the future. The aim of this project, launched in 2003, is to organize and to harmonise the existing micro-data on household wealth. Austria, Canada, Cyprus, Finland, Germany, Italy, Norway, Sweden, United States and United Kingdom are currently contributing with their national datasets.
find that the sharp increase in real state prices have been to a large extent offset by large stock price increases, leaving the overall wealth concentration relatively stable between 1982 and 2002.

An important goal of this work is to assess the impact that housing wealth has on overall wealth inequality. This type of wealth has a large presence in the portfolio of the Spanish households. As Bover (2005) reports, more than 80 percent of the households own their main residence, which is largest rate of ownership among the OECD countries. However, the Spanish housing market during the last decade has been characterized by a sharp rise in housing prices. Indeed, the accumulated growth of this price between 1998 and 2004 was around 160 percent. As a consequence, the wealth holdings of homeowners have risen sharply, while the access to housing has become difficult for large groups of the population, especially for young people. On the other hand, the increase in housing prices has been accompanied by a rise in indebtedness, which implies an important reduction in households’ net wealth, given that debt represents negative wealth. Given these features, the effect of the net value of housing on the distribution of household wealth in Spain is not clear a priori.

The aim of this paper is twofold. First, we analyze, using the data from the first wave of the EFF, how wealth and its main components are distributed among Spanish households. We also compare the main features of these distributions with those of the income distribution. Second, we perform an inequality decomposition analysis in order to determine the contribution of the different wealth components and the different population subgroups to total inequality. In particular, we are interested in assessing the role that housing and financial wealth have in explaining overall wealth inequality.

This paper is organized as follows. Section 2 describes the first wave of the EFF and the different wealth concepts we use in the analysis. Section 3 analyzes and compares the distributions of housing wealth, financial wealth, total wealth and income among the Spanish households. In this section we also study the correspondence between the distributions of income and wealth, determining the degree of mobility between the two distributions. In Section 4 we focus on the distribution of wealth components as well as the main differences in the portfolio composition among wealth classes. The results of the inequality decompositions by wealth components and population subgroups are presented in Section 5. Finally, Section 6 offers a brief conclusion.