

Does housing wealth contribute to wealth inequality?

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[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 conclusion of the book in terms of the explosion of wealth inequality is not plausible. They point out what they see as an inconsistency in the thesis: according to the authors, the capital accumulation model used by Piketty is a model of accumulation of productive capital, which is inconsistent with the choice to use housing market prices to measure housing capital. To correctly measure housing capital, one should use rent and not housing prices. By doing this, the authors conclude that capital/income ratios have remained stable in France, Britain, the United States and Canada, which contradicts the thesis of Piketty.

In [OFCE briefing note n°9 \(“Does housing wealth contribute to wealth inequality? A tale of two New Yorks”\)](#), we show that the authors minimize the contribution of housing to inequality. In particular, we do not believe that trends in housing prices have “second order redistributive effects”. As is often the case, the disagreement is in part due to a lack of consensus on what really matters when discussing inequality: wealth inequality or income inequality or consumption inequality? If we follow the authors, only the consumption from wealth income should matter. We emphasize a theoretical inconsistency in the authors’ main argument. In fact, they value housing capital as the sum of the present values of rents, under the assumption that what matters is the housing service, then they use a dynastic model in which what matters is the transmission of wealth and not the discounted value of the housing service.

In short, our conclusion is that with regard to inequality, wealth matters, housing wealth is in fact wealth, and should be measured in a manner consistent with the measure of other types of wealth. By doing so, one finds that housing wealth does contribute to the growth of wealth and consequently, Piketty's thesis is not refuted.

For more on this, see: [Allègre, G. and X. Timbeau, 2015: "Does housing wealth contribute to wealth inequality? A tale of two New Yorks", OFCE briefing note, n°9, January.](#)