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Home Ownership as a Tool for Long-Term Inequality Reduction: Reflections on the Transmission Mechanism between Macro-Economic Policy and Home Ownership

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1. Abstract

Home ownership is one of the most important enablers of wealth creation, and can play a vital role in reducing inequality over time. Yet in an era of inflation-targeting monetary policy, interest rate volatility creates a disincentive to invest in housing, and penalises existing home owners with low levels of financial literacy who underestimate the impact of interest rate increases. The transmission mechanism between macro-economic policy and home ownership in South Africa is complicated by provision of state-subsidised housing loans. However, even loan recipients are exposed to interest rate risk if they require funds beyond the value of the housing subsidy to purchase a home. This paper utilises empirical evidence from Wave 1 and Wave 2 of the National Income Dynamics Study (NIDS) to evaluate entry and exit into the housing market. Because NIDS captures home ownership information, housing grant reciprocity and negative events experienced by household members before and after the South African recession, we can evaluate the characteristics of gainers and losers in home ownership during this period. While we cannot causally identify the link between home ownership loss or gain and interest rates in NIDS, we can identify the impact of housing grant reciprocity and home ownership transition status. We exploit all the features of the NIDS data to anchor a discussion of the transmission mechanism between macro-economic policy instruments and home ownership, with reflections on the long-term implications of this relationship for inequality reduction.

2. Findings

After an evaluation of the NIDS Wave 1 and 2 datasets (SALDRU, 2012) on home ownership, home ownership transition status, housing debt, housing grant reciprocity and negative events, it has become apparent that there are too few observations in both Waves of the data to conduct a precise analysis of these questions. There is also high item nonresponse on all of the financial questions. Future wealth modules of the NIDS should redesign the questionnaire in such a way as to better solicit responses from interviewees on these questions. The Carnegie Presentation will show some of the data distributions that led to this conclusion.

3. References

Southern Africa Labour and Development Research Unit. National Income Dynamics Study 2008, Wave 1 [dataset]. Version 4.1. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2012. Cape Town: DataFirst [distributor], 2012

Southern Africa Labour and Development Research Unit. National Income Dynamics Study 2010-2011, Wave 2 [dataset]. Version 1. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2012. Cape Town: DataFirst [distributor], 2012