

Discussion of Susann Rohwedder and Michael Hurd, Consumption During the Financial Crisis

by

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Household Finances and Behaviour in Times of Crisis

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Relevance

- Micro: to what degree do people smooth consumption during working life?
- Micro: consumption at retirement
- Macro: multiplier effects

Relevance (cont.d)

- Consumption vs living standard (well being)
- Are food expenditures a good measure of consumption smoothing?
- And... does participating in survey affect household behavior....?

Consumption level

- Falls much less than income
 - > Do people have that many liquid savings?
 - > Do they sell stock?
 - > Do they spend severance pay (= pension savings)?
 - > Is it sustainable if they remain unemployed?

Spending categories

- Huge differences – implication for consumption smoothing research
- How much can be attributed to work-related expenditures?
 - > Hurst et al find that upon retirement, these expenditures fall (travel)
 - > You find that dining out and clothing falls

Spending categories (cont.d)

- If you do not find a decrease in spending, it may still imply a fall in living standard
 - > Health expenditures
 - > Planned durable
- If you find a decrease in spending, it is not necessarily a fall in living standard
 - > Time vs money
 - > Home production
 - > Less waste of food

Clothing

- Lage change
- May be related to (un)employment
- Home production?
- Could it be useful to distinguish between children's (0-12) and adult clothing?
 - > Work related
 - > Necessity vs luxury

Young vs older households

- Young are likely to have lower severance pay
- However,
 - > Young have lower impact from financial wealth shock
 - > Young benefit from shock in housing market

Housing capital

- Owned home is asset
 - falls
- Future housing cost is liability
- Falls more for young than fall in asset

Numerical example

- Young household owns one bedroom appt, price falls from 200 to 100
- Price of three bedr appt falls from 400 to 200
 - liabilities fall more than assets

- Slow fall in spending cushions effect of unemployment
- When re-employed, spending goes up slowly
 - > Have people learned
 - That they should insure more?
 - That they can sustain standard of living while spending less?
 - Both?

Netherlands unemployment insurance

If worked long enough

70% of gross wage during 2 months

60% of gross wage, one month for each
year worked up to 36 months

Hence insurance increases with
employment duration, same in US?

This was my discussion