

Discussion of
“Dissecting Saving Dynamics: Measuring
Credit, Wealth, and Precautionary Effects”
by Carroll, Slacalek, and Sommer

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This discussion was prepared for the “Structural and Cyclical Elements in Macroeconomics” conference at the Federal Reserve Bank of San Francisco on March 16, 2012.

Key Findings

- Measures of wealth, credit availability, and unemployment risk can explain 80 to 90 percent of the variation in the quarterly NIPA saving rate.
- The wealth effect may be smaller than we thought → CSS estimate a MPC of just 0.012.
- The downtrend in the saving rate from 1980 through the mid-2000s was driven by rising wealth and, especially, greater credit availability.
- In explaining the recent rise in the saving rate, tighter credit conditions appear to be less important than the fall in wealth or the rise in unemployment risk.

Reactions

- Great to see some more focus on what explains the big decline in the U.S. saving rate over past 30 years.
- A parsimonious and theoretically-grounded empirical model that helps policymakers understand the direction in which consumption is heading could be a really useful tool.
- The results for recent years have potentially important policy implications → e.g. they speak to how worried should we be about the current still-tight and uneven supply of credit.
- BUT, I have questions ...

Question 1: Does it make sense to model aggregate saving with the the buffer-stock model?

- The model is not designed to characterize everyone.
- Does **not** capture wealthiest households, who presumably account for much of saving.
 - » CBO (2012): Top 5 percent accounted for 30 percent of after-tax income in 2007
 - » Dynan-Skinner-Zeldes (2004): Top 5 percent save 37 percent of their income.
- Would be interesting to translate CSS aggregate effects into effects for relevant households and look at whether we've seen the expected increase in their market resources.
 - » 2010 Survey of Consumer Finances should be out soon.

Question 2: How well does the Senior Loan Officer Survey measure capture credit conditions?

- Question isn't very specific: "increased willingness to make new consumer installment loans."
- Installment loans only represented 1/8 of total household credit over last decade. How well is supply correlated with broader household credit supply?
 - » Mortgage market saw a lot more innovation in early 2000s.
 - » Mortgage credit supply presumably more linked to house prices.
 - » Right now it looks like conditions in mortgage market might be much tighter (or at least more uneven) than in consumer credit market.

More issues with Senior Loan Officer Survey measure ...

- A lot of lending is done outside of the bank sector (on average over past decade about 1/3 of mortgage and consumer loans held by banks).
 - » Non-banks subject to very different regulatory regime (and the difference is a moving target).
- Until 2008, SLOS measures were just not very interesting:
 - » Showed general trend toward greater credit availability.
 - » Some variation around trend but mostly related to the business cycle.
 - » Would have been good to see if results hold up if you estimate only through 2007.

Question 3: Are the results consistent with what we are see in household data?

- Household-level data might offer sharper test:
 - » Variation in balance sheet conditions across households.
 - » Geographic variation in unemployment risk.
- Dynan (2012) paper on the debt overhang
 - » Uses data from the Panel Study on Income Dynamics, merged with state-level employment information.
 - » Looks at the relationship between households' debt position and the 2007-09 change in its nonhousing consumption, controlling for demographics, the unemployment rate (level and change), and changes in income and wealth.

Dynan (2012) results

Dependent Variable = 2007-09 Nonhousing Consumption Growth					
	Debt term = leverage (D/A)		Debt term = debt service ratio (DSR)		
	Ex ante	Ex post (IV)	Ex ante	w UR interaction	w Δ(UR) Interaction
State UR	.27 (1.24)	.18 (1.25)	.24 (1.24)	.86 (1.97)	.20 (1.24)
Δ(State UR)	-.01 (1.77)	.11 (1.78)	.21 (1.77)	.25 (1.78)	.09 (1.79)
Income Growth	.11*** (.02)	.11*** (.02)	.12*** (.02)	.13*** (.02)	.13*** (.02)
Wealth Growth	.02*** (.00)	.02*** (.01)	.02*** (.00)	.02*** (.00)	.02*** (.00)
D/A or DSR	-6.07*** (3.25)	-7.80** (4.11)	-6.78** (3.90)	-16.65 (22.93)	-17.23 (22.14)
DSR*UR86 (1.97)	..
DSR*Δ(UR)	1.83 (3.81)

*Significant at 15 percent level; **Significant at 10 percent level, ***Significant at 5 percent level .

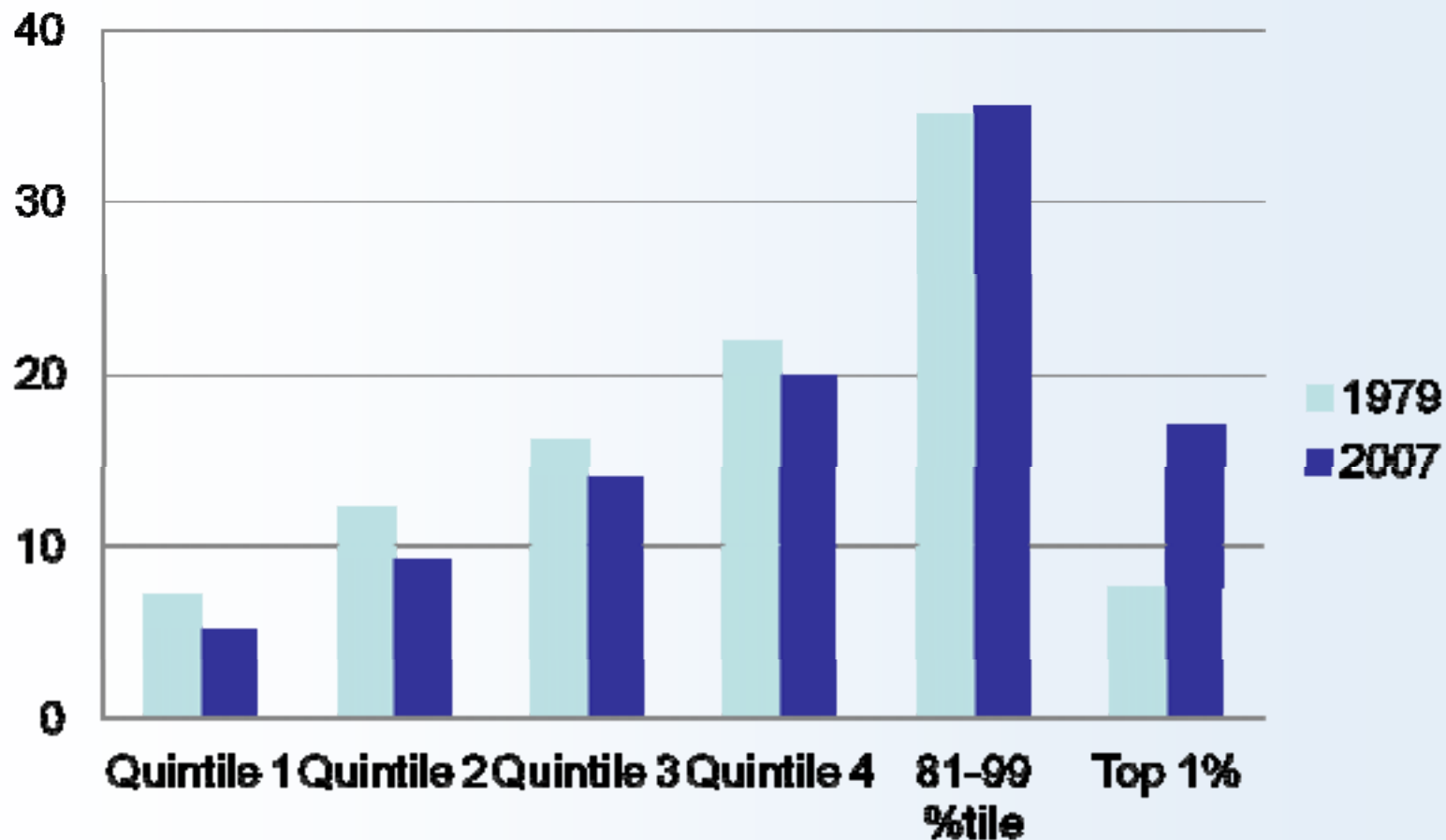
What to make of the household-level evidence?

- No obvious evidence of strong role for unemployment risk.
- One way to partially reconcile micro and macro: might the CSS unemployment expectations term actually be capturing credit supply conditions?
 - » After all, lenders should be responding to economic conditions.
 - » Uncertainty about the economy is sometimes offered as an explanation for the lack of comeback in the private mortgage securitization market.

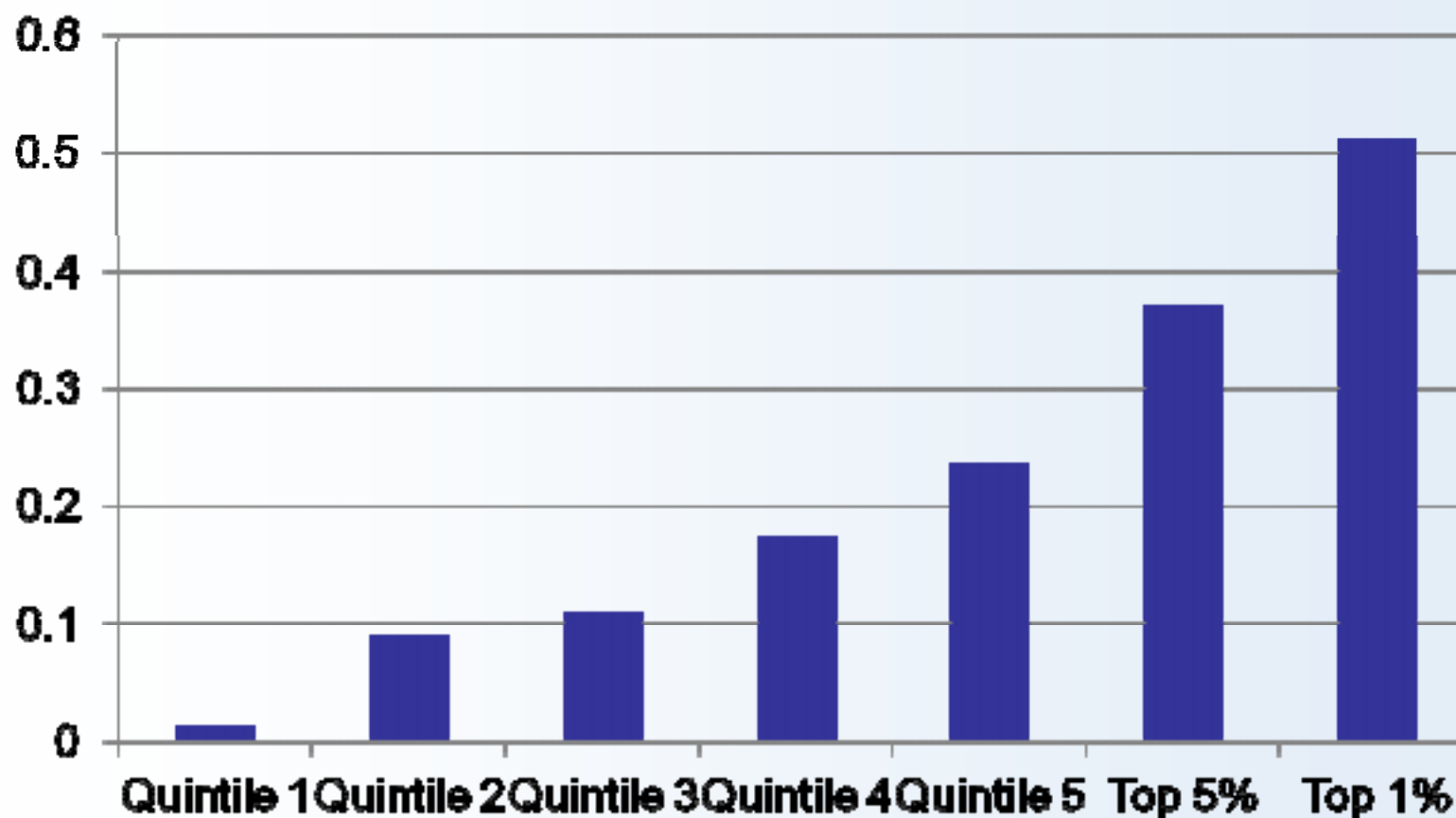
Question 4: Have CSS left out things that plausibly should have influenced the longer-term trend in the aggregate saving rate?

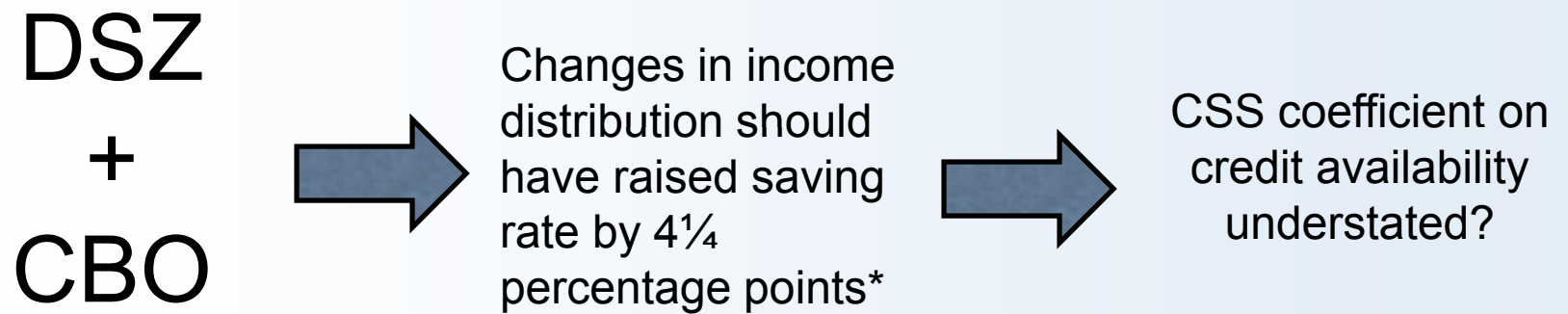
Yes—changes in the income distribution!

Shares of After Tax Income (CBO, 2012)



Estimated Saving Rates for Different Income Groups (Dynan, Skinner, Zeldes, 2004)





* At face value; ignoring things like changes in wealth.

Conclusions

- Paper is trying to do something really worthwhile.
- It's off to a good start.
- Ideas for refinement:
 - » Thinking about the relationship between the aggregate and individuals.
 - » Thinking about whether the terms are capturing what they are supposed to be capturing.
 - Important because different policy implications.
 - » Thinking about the implications of changes in the income distribution.