

The Euro-System Survey on Household Finance and Consumption

Discussion

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Outline

- 1. Data on household portfolios: Europe is catching up**
- 2. Why are international comparable data useful? Four examples**
- 3. Important dimensions of data collection**

1. Data on household portfolios

Macroeconomic data cannot address issues of:

- Participation decisions.
- Relation with wealth and demographic characteristics.
- Transitions in and out from financial markets.
- Response to idiosyncratic shocks.

Survey data

- Assets and debts are aggregated in few selected categories.
- Hard to study the portfolio of the rich.
- Assets and debts amounts are affected by large measurement errors.
- But quite useful in detecting systematic patterns of the decision to invest in specific assets, the propensity to borrow, and the demand for housing.

Approach: strict international comparability

- Variety of European **policies, constraints, institutions**.
- Their impact can only be understood if we can **compare them across time and across countries**.
- Fully comparable data allow to exploit the **natural experiments** created by different policy and institutions.
- Difference in institutions is a big **value added** with respect to US surveys.

Europe is catching up

SHARE Survey of Health, Ageing and Retirement	Individuals 50+. Health, pensions, retirement, family networks.	11 countries 14 planned, 2003-2006 panel
ECHP	Income, labor market, education, housing	15 countries 1994-2001 panel
EU-SILC Statistics on Income and Living Conditions	Income, poverty, social exclusions, living conditions.	15 countries 30 planned 2002-2005
Euro-System SCF	Wealth, portfolio choice, consumption	Euro-zone

2. Why are international comparable data useful?

Four examples

- A. The stockholding puzzle.
- B. International differences in household debt.
- C. Default rates.
- D. Intergenerational transfers.

A. The stockholding puzzle

Standard finance theory predicts that people should be holding at least some stocks.

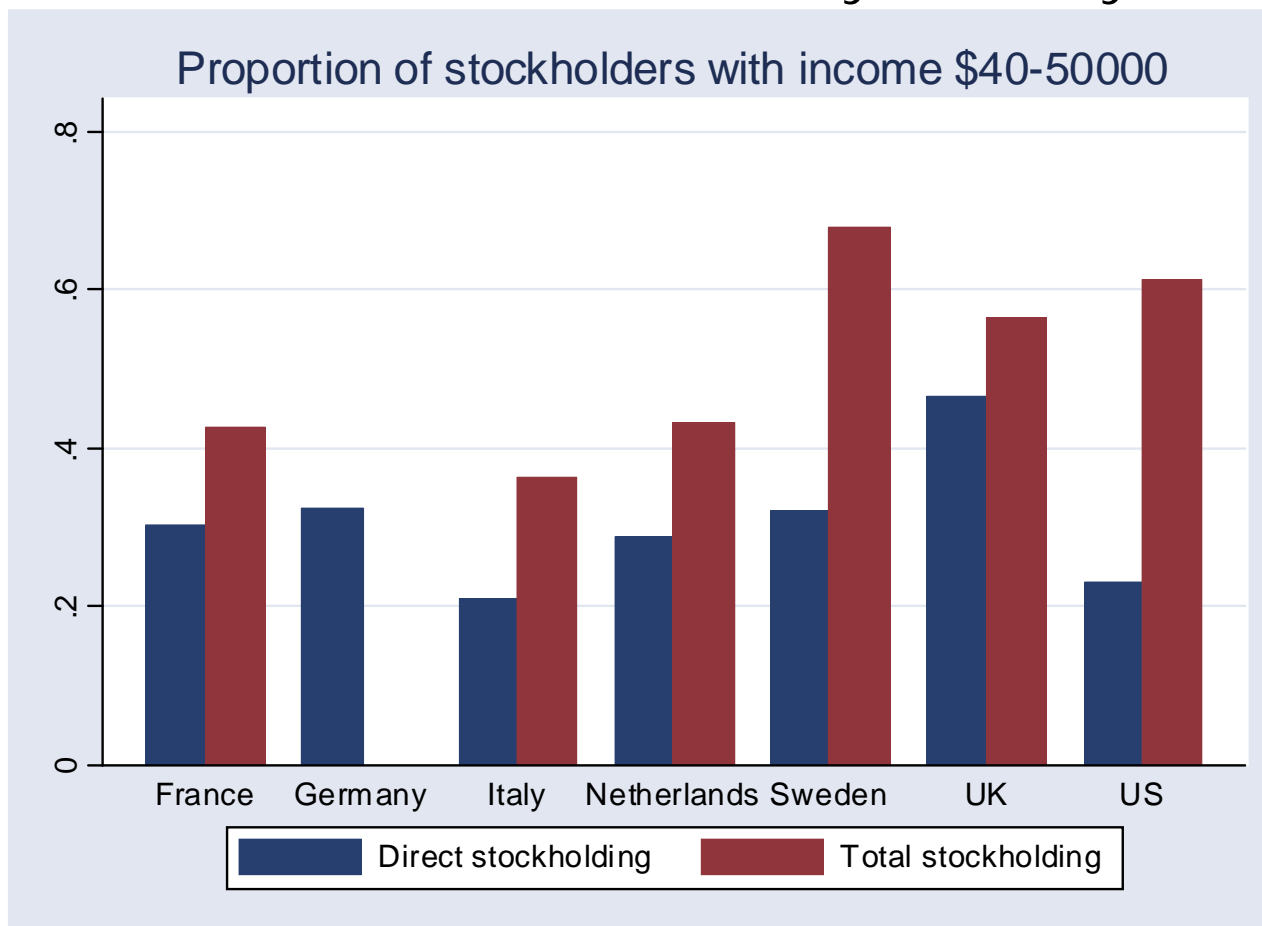
Many don't, even at high level of income and wealth.

Promising explanations:

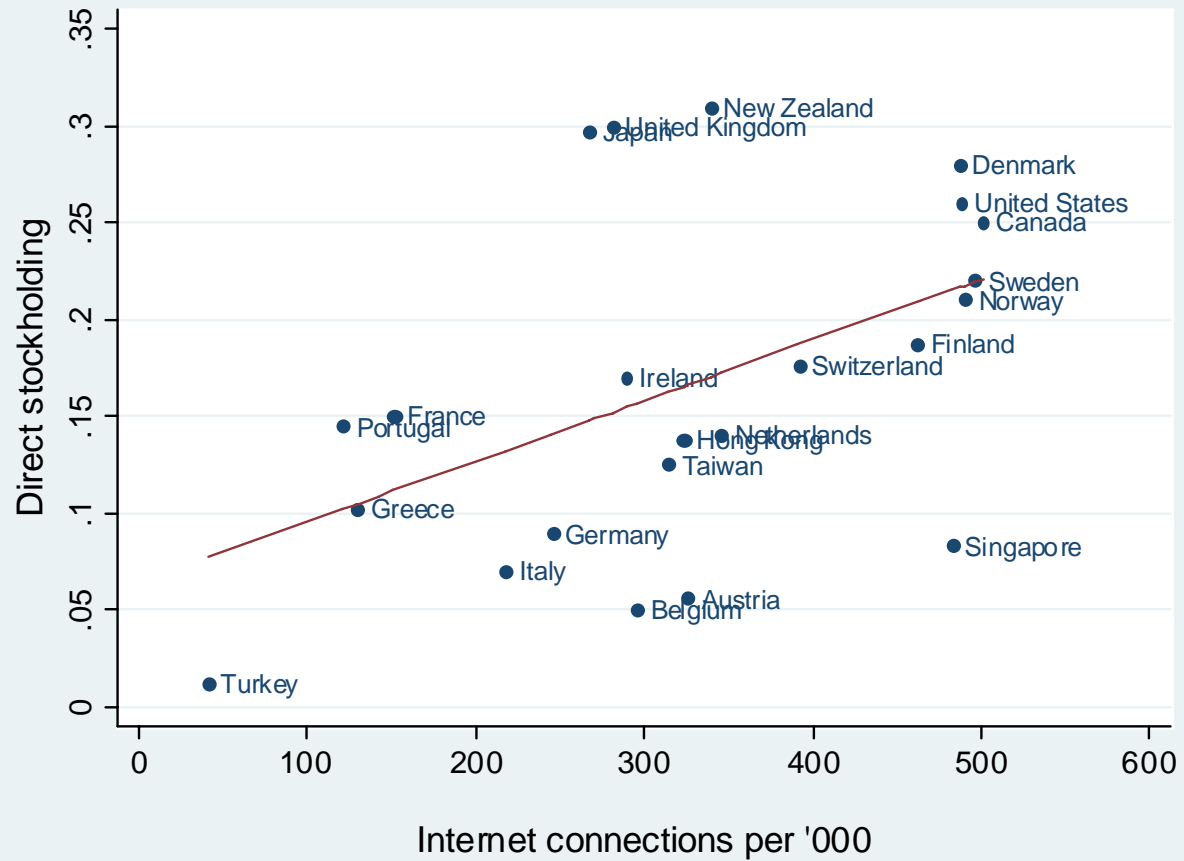
- Information costs.
- Investors' protection.

International differences in stockholding

At **the same level of income or wealth**, many participate in the US and Sweden, few in Germany and Italy.

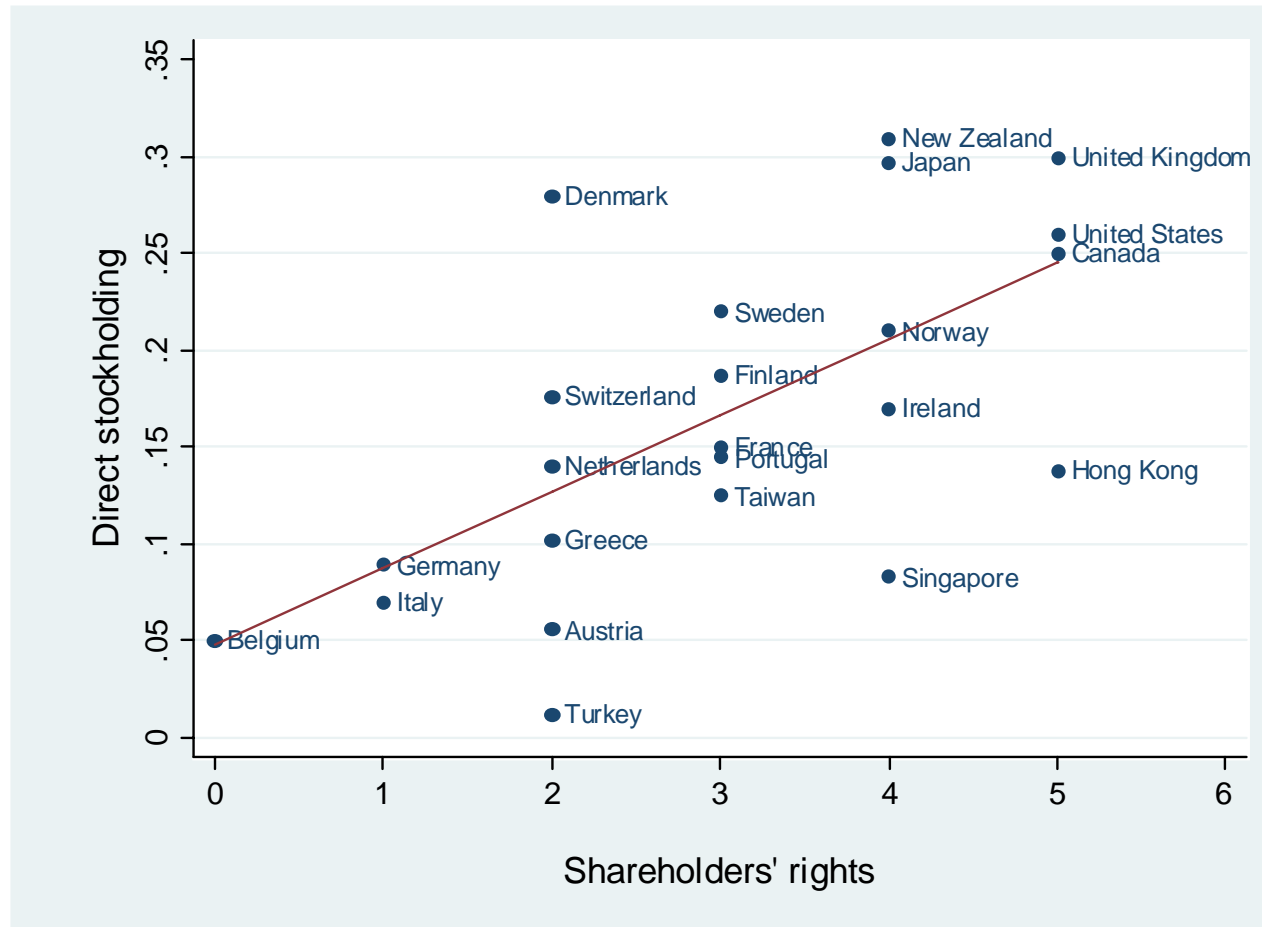


Stockholding and information costs



Stockholding and investors' protection

Weak investors' protection lowers incentives to participate (Giannetti and Koskinen).



B. International differences in household debt

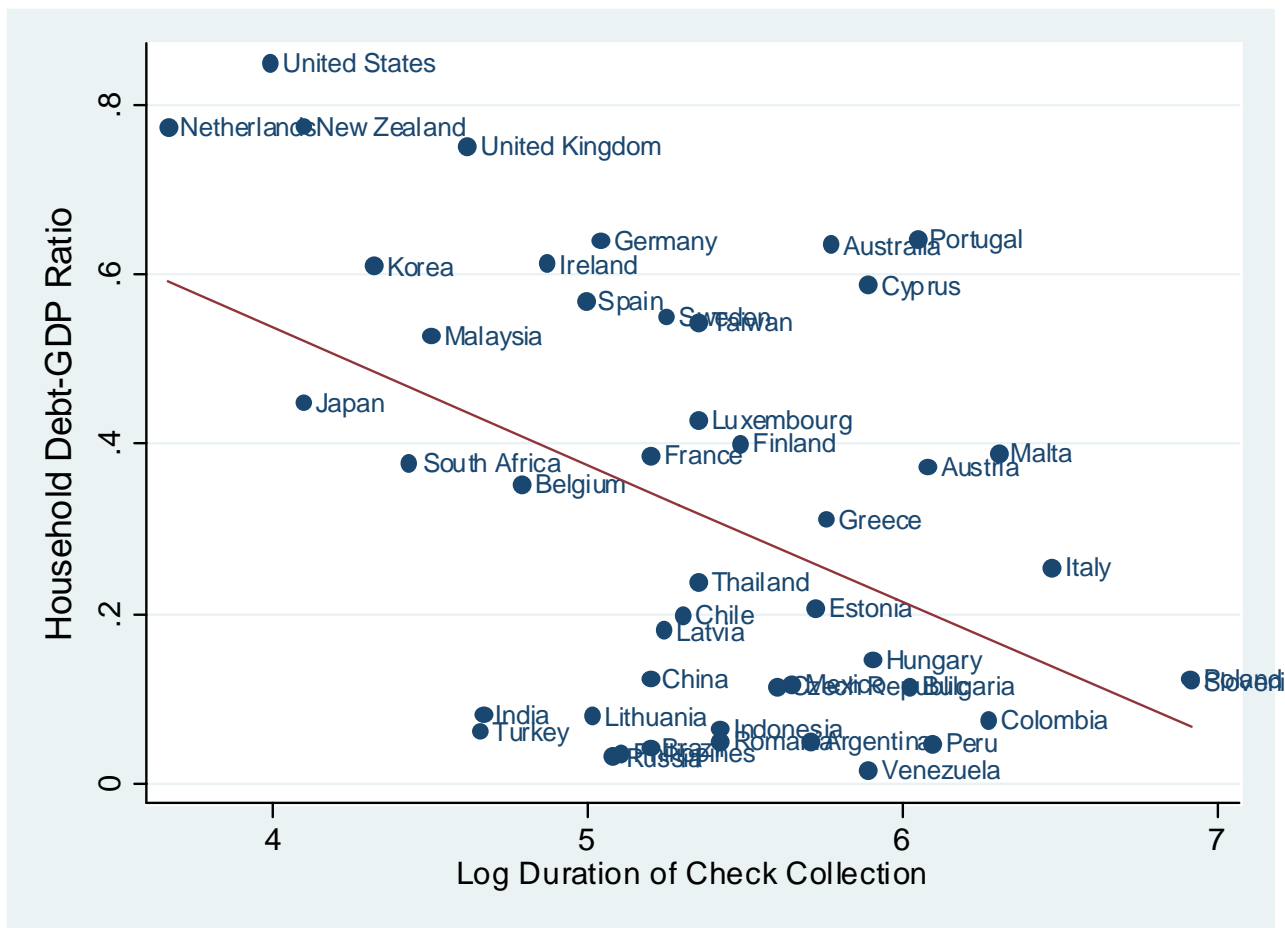
Many determinants: demand factors, supply factors, taxes, institutions.

Promising explanations:

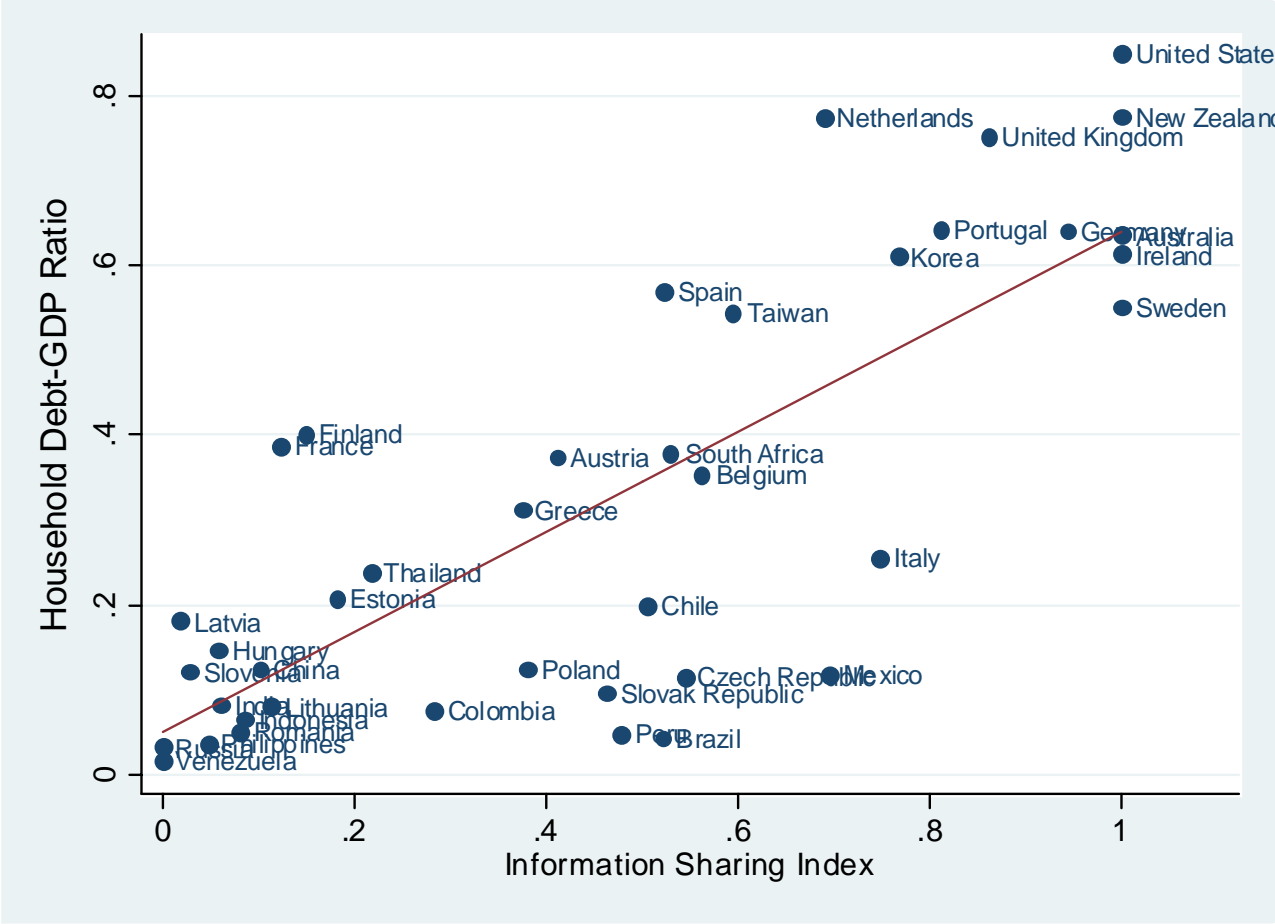
- Judicial efficiency and recovery costs of credit.
- Information sharing among lenders.

With international comparable microdata researchers will be able to study **how such institutions interact with microeconomic shocks.**

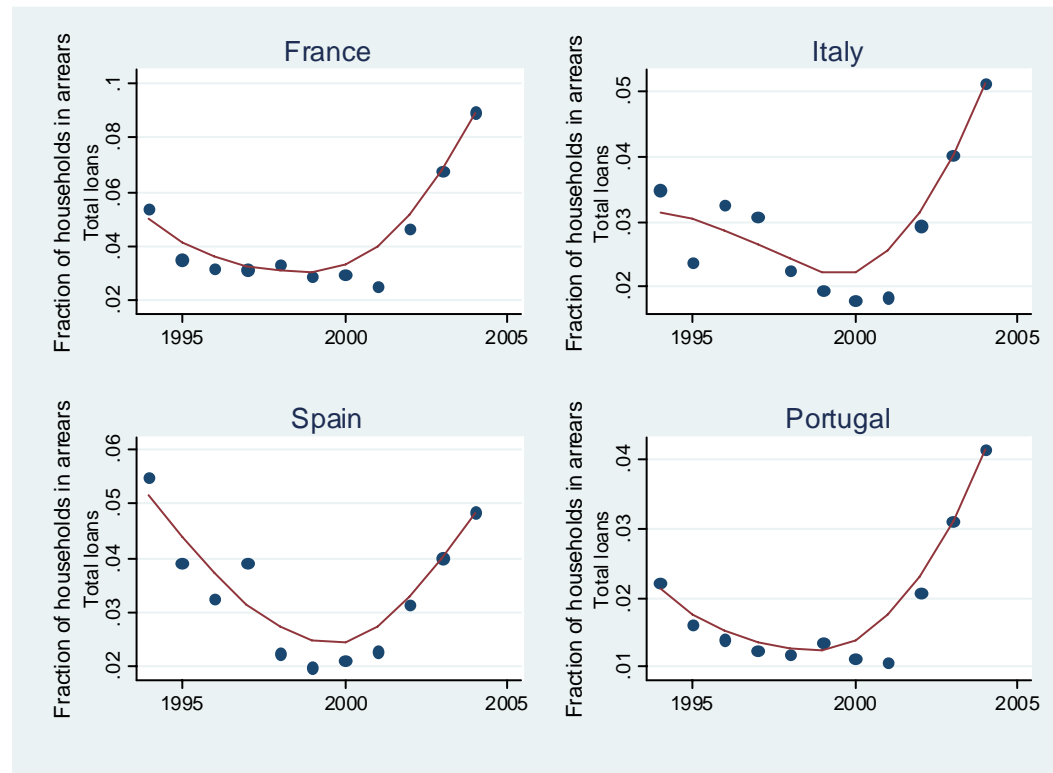
Do judicial costs lower the household-debt GDP ratio?



Does information sharing improve access to credit?



C. Household arrears and defaults



- More credit to risky borrowers? Or lower cost of bankruptcy?
- Does higher debt lead to higher default rates?

D. Intergenerational transfers

- We know little about transfers between generations.
- We don't know how bequests react to **changes in social security**, redistribution through long-term care, changes in bequest taxation.
- We don't even know how large bequests are.
- Preferences, tax considerations, financial market constraints.

3. Important dimensions of data collection

- **Repeated cross-sections.** Age and cohort effects, comparison over time.
- **Panel data.** Study decisions at the time decisions are made, and how people respond to shocks. Portfolio transitions, housing transitions.
- **Integrate** consumption, income and wealth data: **excellent.**
- To exploit **EU institutional differences**, surveys need to be **representative at the country level.**

Survey design

1. **Enforce comparability** not only in terms of variables (as planned), but also in terms of timing:
 - Country surveys should be **synchronized**
 - Income, consumption, assets and debt definitions should refer to the **same period** (either past 12 months or last calendar year).
2. Start out with a design that allows future surveys to have at least a **panel component**.

Focus of the survey

The EU-SCF will be **one of the very few surveys** with data on income, consumption, assets and debts.

1. More data on consumption:

- Food at home
- Food outside home
- Rents
- Bills
- Broad question on non-durable expenditure

2. There is considerable attention to debt but data on **insolvencies and arrears** are missing.

3. Data on **subjective probabilities** have been proved to be extremely useful in understanding people's behavior.

Examples:

- Perceptions of job insecurity
 - Income expectations
 - Social security expectations
 - Investment expectations
 - Survival probabilities
 - Expectation of receiving or leaving an inheritance
4. Data on **financial literacy** important to analyze portfolio and borrowing decisions.

Questionnaire and imputation

- Important that questionnaire is translated twice from English to the original language.
- **Imputation of missing variables** is a very important task, and should be done centrally (not from individuals CB), ensuring comparability of the imputation algorithms.