Dissecting Saving Dynamics: Measuring Wealth, Precautionary, and Credit Effects

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Summary

Motivating question :

- What drives the fluctuations in the average US personal saving rate before and during the Great Recession (1966-2011) ?

What they do :

- build a model, obtain an explicit expression of the target wealth of a household
- it implies the saving rate is an unspecified function of three proximate causes : wealth effect, unemployment risk, credit availability (with others causes/parameters set fixed)
- simulate the model to estimate the coefficients associated with each of the three causes => significant
- perform counterfactuals eliminating some of the causes

Contribution

- no closed-form solution for consumption and saving in life-cycle models with a precautionary motive
  $\Rightarrow$ they are providing an **explicit expression of the wealth target as a function of at least three causes**, simplifying unemployment risk and borrowing constraints
- conclude that the increase in saving rate in 2007-2009 is **not entirely attributable to pure wealth effect** (alone would only generate 60% of the increase)
  $\Rightarrow$ indirect wealth effect through precautionary saving and credit availability

Comment 1 : no explicit expression of saving

- one of the motivation of the paper is transparency
- yet **the saving rate** that is decomposed has no explicit expression
  $\Rightarrow$ this variable **has to be simulated** from the model
- the choice of having a simplified model might generate a gain in estimating time but the **gain in transparency is less obvious**
- seems that the the absence of explicit borrowing constraint (only a natural borrowing constraint that fluctuates with UI) could be generalized without paying much in estimation time
  $\Rightarrow$ Kaplan and Violante (2010) have a life-cycle model with incomplete market and estimate their discount factor
- same for very simplified unemployment risk ?

Comment 2 : mapping from empirics to model

- contrast between **carefulness in microfounding** link between proximate causes-saving rate/**raw assumptions** about link between observed variables-proximate causes
  - borrowing constraint is a **linear function** of the answer to a question about willingness to make installment loans (not the case if constraint is not always binding)
  - probability to become unemployed when employed is a **linear function** of the expected aggregate rate of unemployment

  $\Rightarrow$ maybe one reason why you find that your model and a linear specification do not differ much is **because you make these linear assumptions** in your model ?
- identification of UI from borrowing constraint thus from willingness to make loans

  $\Rightarrow$ interactions between the proximate causes in the model are **different from their interactions in the data**

Comment 2 : mapping from empirics to model

- paper only **exploits a little part of the model** to constrain the data
  $\Rightarrow$ takes wealth as given at each period (no dynamics)
  $\Rightarrow$ could you use/check whether the **saving + initial wealth predicts wealth at the next period well** ?

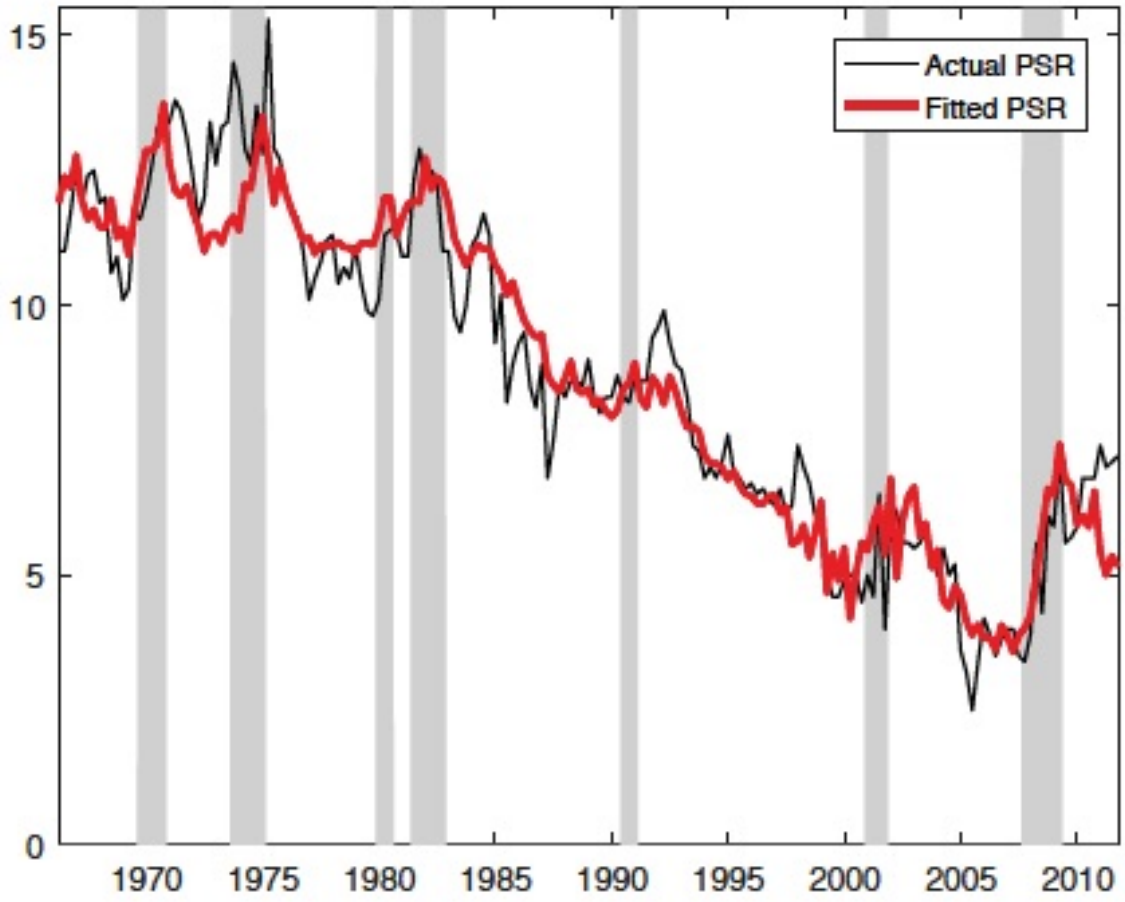
Comment 3 : prediction after 2009 ?

- one of the contribution of the paper is to **explain the variations in saving in different periods** : the decrease before/increase after the Great Recession
- yet paper stops in 2011 for following reasons :
  - revisions can be large (but it's been 9 years)
  - divergence between your measure of credit conditions and other measures (should you use other measures ?)
  - 'scarring effect' of the Great Recession causing change in preference parameters (this should affect the period 2007-2011) + contradicts a little your stated ambition of explaining before/after with one model ?
- in FRED data, sustained increase in personal saving rate after the Great Recession while increase in net wealth, decrease in unemployment, decrease in your index of credit availability

$\Rightarrow$ **could you explain these results as well ?** take your 'scarring effect' seriously to try it ?

Comment 3 : prediction after 2009 ?

Figure 6 The Structural Estimation: Main Results



(a) Actual and Fitted Saving Rate

Other comments

- Could you justify a little more why you consider these three causes as varying and not the others (wage growth ? real interest rate if including return on housing which you consider wealth ?) $\Rightarrow$ I know that the three causes you chose explain 90%+ of the fluctuations but **since they are correlated, maybe three others could do as well** ?
- Choice in **order of exclusion** might affect importance of each proximate cause since they are interdependent