

Discussion of
“Wealth, Race and Consumption
Smoothing of Typical Income
Shocks”

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The aim

- Study of typical income shocks:
 - temporary:
 - irregular work schedules
 - bonuses and commissions
 - seasonal employment
 - persistent:
 - unemployment
- Study finer frequency shocks: month-to-month
- on consumption response, by race and wealth
- using an instrument of co-workers changes in pay

Findings:

- Substantial elasticity of consumption wrt income – 0.23
 - much less consumption smoothing out of transitory income shocks
 - interesting findings with more accurate administrative data, but expected for finer frequency data
- Racial wealth gap translates into substantial differences in consumption smoothing:
 - negative income shocks lead to consumption cut by 50% more for black and 20% more for Hispanic
 - empirically, the typical shocks are likely positive, the results suggest the response is roughly symmetric, typical shocks lead to consumption increase by 50% more for black and 20% more for Hispanic than for white households
 - nearly all of these difference in response is explained by differences in wealth

Instrument: co-workers changes in pay

The instrument captures:

- hours volatility
- bonuses and commissions
- seasonal employment

These are the likely sources of **transitory** income shocks

In this data: these shocks are more **positive** than negative.

Survey of Economic Expectations: transitory shocks are **negative** on average.

Once predictable (calendar) variation is excluded, the results become similar to OLS

OLS estimates: white 0.09; black +0.08; Hispanic +0.04

IV elasticities: white 0.12; black +0.08; Hispanic +0.02

Benchmark IV elasticities: white 0.20; black +0.09; Hispanic +0.04

Suggestion: more info on the strength of the hours volatility instrument.

More on predictable income changes

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IV elasticities: white 0.12; black +0.08; Hispanic +0.02

Benchmark IV elasticities: white 0.20; black +0.09; Hispanic +0.04

The benchmark elasticities are then used in the structural model simulations.

The model separates deterministic and unpredictable factors, whereas the benchmark estimates of the elasticity of spending to transitory income shocks are heavily affected by the predictable changes.

The welfare gains could be more modest if using elasticities based on unpredictable income shocks, whereas racial differences could be larger.

Comments: Data

Information on firms: - how many employers
 - how many employees per employer

The instrument uses not any co-workers, but those who chose Chase. Bank location is the top factor to choose the bank. Spending could be affected by peer- and neighborhood effects. Suggestion: clustering by firm and location.

Consumption, savings and income:

- is the data net of inflation?

Comments: Interpretation of results

Typical shocks for an **average household** – who it is in the data?

observing joint accounts vs single-person accounts, what can be said about:

- family size
- aggregation/disaggregation of income in a household
 - about 30 - 40% of couples keep their finances separately
- consumption expenditure split in couples
 - likely very unequal

Comments: liquid wealth

- Liquid wealth is imputed using checking account balances and race

	Dependent Variable: Δ Log Non Durable Consumption							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Δ Log Income	0.120 (0.003)	0.091 (0.002)	0.231 (0.009)	0.200 (0.009)	0.233 (0.009)	0.217 (0.008)	0.234 (0.009)	0.237 (0.008)
(Δ Log Income) x Black		0.080 (0.004)		0.092 (0.006)		0.050 (0.005)		0.010 (0.005)
(Δ Log Income) x Hispanic		0.040 (0.003)		0.043 (0.008)		0.022 (0.007)		-0.024 (0.007)
(Δ Log Income) x Checking					-0.252 (0.009)	-0.233 (0.008)		
(Δ Log Income) x Liquid(Imputed)							-0.255 (0.010)	-0.258 (0.009)
OLS/IV	OLS	OLS	IV	IV	IV	IV	IV	IV
Black and Hispanic Dummies		Yes		Yes		Yes		Yes
Asset Rank Control					Yes	Yes	Yes	Yes
Observations	19,278,989	19,278,989	19,200,198	19,200,198	19,200,198	19,200,198	19,200,198	19,200,198
Adjusted R ²	0.009	0.009	0.001	0.002	0.005	0.005	0.005	0.005

- It may not be surprising to see the effect of race largely disappears in (8), because race is a central factor in imputing liquid wealth. From the imputation results total variation in liquid wealth is explained by
 - checking account balance – about 45%
 - race – 2 to 6%
 - 50% other factors
- Why not use age, sex and geographical location in imputation to break the tight link between specifications (6) and (8)?

Suggestions

- Interesting finding on how strongly the elasticity declines with liquid assets: 0.39 for the lowest-asset and 0.12 for the highest-asset households:
 - Q: how this reduction would look if split by race?