

Discussion of
“Rent or Buy :The Role of Lifetime Experiences of
Macroeconomic Shocks within and across Countries”
by U.Malmentier and A.Steiny

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The views in this presentation do not necessarily represent those of the Banque de France.
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Summary of paper and my take-away

- Analysis of home-ownership with HFCS data
- Focus on the role of lifetime inflation experience
- Consistent with model in which
 - (i) lifetime inflation drives inflation expectations and
 - (ii) home-owning is the main inflation hedge.
- Puts forward a semi elasticity:
+1pp in lifetime inflation increase home-ownership rate by 8 pp.

→ Very stimulating paper.

→ I find convincing that house-purchase acts as an inflation hedge.

→ And that past individual experience is a driver of economic decisions

- 1 Some caveats about cross-country analysis
- 2 About inflation hedges
- 3 The “lifetime inflation” variable vs life-cycle
- 4 Any policy lessons (having in mind the inflation objective)?

Not commented upon here: nice robustness exercises with SHARE data, with US immigrants data

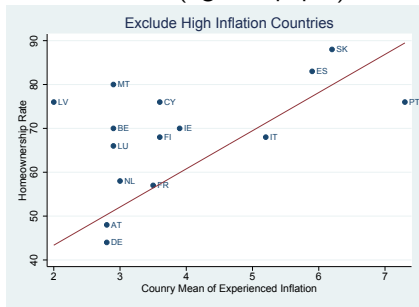
1. On cross-country analysis : caveats

Within Europe, cross-country differences in home-ownership are noticeable.

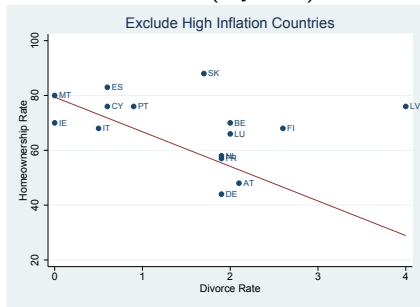
This may reflect many cultural or regulatory differences. Acknowledged in paper. Yet scatter-plots and regressions displayed in 'country analysis' section.

Alternative country-specific variable could explain as well. Example in Panel B. Say divorce rate – divorce inducing larger costs in case of home-ownership.

Panel A (fig 5 in paper)



Panel B (my own)



Source: Eurostat. Rate per 1,000 persons, 1990
(In fact works not really as well)

2. On inflation hedges

Effect of experienced inflation weaker when other inflation hedges available

Ratio: $\frac{\text{inflation indexed bond issued}}{GDP}$ by country used as proxy

Several concerns:

- Not sure many HHs hold inflation-protected bonds.
- Sophisticated HH could hold inflation-protected bonds from another country (inflation rates are correlated since decades)
- What about stock-ownership? Doesn't it provide a long-term inflation protection?

Remark: HFCS data (or future vintages) may help provide insights.

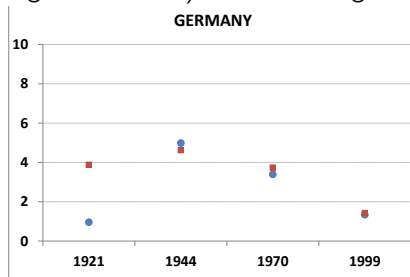
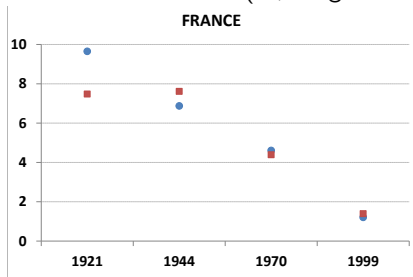
3. Main comment: Lifetime inflation experience vs the life cycle in Ownership rate

Wondering: what is my own experienced inflation?

What is that of my (home-owners, baby-boomers) parents

Of my (non-home owners) oldest child, and grand-pa?

Figure Lifetime inflation (% , weighted and unweighted versions) for selected ages



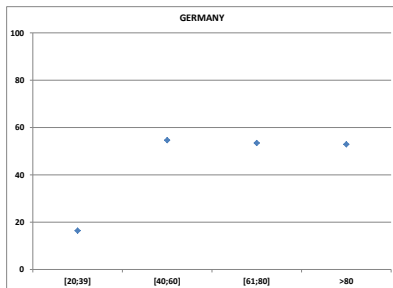
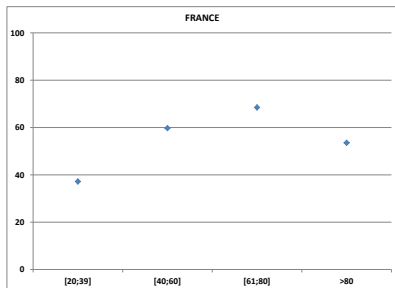
Source: Reinhart and Rogoff (2009)

Squares=unweighted infl.

Not a monotonic relationship. Bell-shape. Especially for German counterparts.

Pattern of experienced inflation appears to match life-cycle in home ownership

Figure Home ownership rate (%) by age groups



Source: HFCS data

Such similar patterns may reflect experienced inflation is a causal factor.
Or confounding factor for life-cycle effects

The regressions in the paper do control for age.

Practical suggestion: test for **age squared**, or age-group dummies, as well.

4. Any policy conclusion?

- Eurosystem objective : bring inflation to (below, but close to) 2 %.
This will in the long run *decrease* average lifetime experience inflation in EA
Say by 2 pp (from approximately currently 4%)
Based on paper main elasticity, expect :
→ decline by 16 pp of HO rate – from say 76 to 50 percent
- Paper states (p.1) “Higher homeownership levels ... related to more investment in social capital, *lower crime rates* (...). Children grown up in owner-occupied homes shown to have *better cognitive and behavioral outcomes* and achieve higher educational attainment”
Embarassing for the Eurosystem!
- Any solace from the literature stating home ownership can as well be a curse? E.g. “Does High Home-Ownership Impair the Labor Market?
(Blanchflower and Oswald, 2013)
Recent paper on France: Chevalier Lardreux (2017)