

**“The response of household wealth
to the risk of losing the job: evidence
from differences in firing costs”**

by Cristina Barceló and Ernesto Villanueva

Discussion by Andrea Brandolini

Bank of Italy, Department for Structural Economic Analysis

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Outline

- The question
- Data
- Model 1
- Model 2
- Other comments

The question (1)

- Do temporary workers – i.e. employees hired with a fixed-term or ‘low dismissal cost’ contract – save more for precautionary reasons?
- Very relevant policy question
 - In some European countries – Spain, but Italy too – temporary contracts have been an answer to firms’ call for greater flexibility by relaxing employment protection legislation for new entrants
 - ‘Segmented’ labour market
 - Relevance for design of welfare measures
 - Macroeconomic relevance: to what extent is consumption growth reduced by this forced precautionary saving?

The question (2)

- Difficult question to answer
 - Temporary workers have lower consumption because they save more for rainy days
 - Temporary workers consume less because they tend to have lower incomes
 - Difficult to separate two factors

Data

- *Encuesta Financiera de las Familias*, EFF, 2002, 2005
 - Households headed by an employee aged 23-65
 - Exclude self-employed
 - Exclude negative wealth, to use logs
 - why not recoding 0 to 1?
 - what about negative wealth?
 - Use contract type of the first job reported (EFF asks about the characteristics of up to three jobs)
 - what does it mean 'first'? Time or importance?

Model 1 – Estimation

- As permanent workers expected to be more productive, type of contract is correlated with unobservable factors that also influence wealth accumulation. Need instrument.
- Identification strategy: use programs to promote permanent jobs (new hirings and conversions from temporary jobs) implemented differently across Spanish regions
 - Lump-sum ~ 20% annual mean labour cost
 - Estimation: mean subsidy in region in 1st and 2nd year, at 2005 prices by means of ‘regional deflators of household gross disposable income’
 - HGDI vs. value added deflator
 - Regional vs. national price index

Model 1 – Results

- Two stage least squares estimates
 - ‘Households react to the risk of job loss of the main and secondary earner by accumulating financial wealth. The evidence is strongest among households headed by male employees, and the average size of the excess of wealth kept with respect to workers covered by high dismissal cost contracts is between 29% and 44% of gross household earnings.’
 - Average buffer of liquid assets ~ 3-5 months of earnings
 - Reasonable number to me
 - Interestingly, recent work on asset-poverty take wealth below $\frac{1}{4}$ to $\frac{1}{2}$ of the annual poverty line as a measure of asset-poverty

Model 2 – Estimation

- Implication 2 of precautionary saving model: individuals exposed to higher risk of losing job postpone consumption to future and exhibit higher consumption growth than permanent workers (conditional to controls)

$$E_1[\log(c_2) - \log(c_1)] = \frac{\text{Var}_1(Y)}{W_1^2}$$

- Relationship to p
- Public employees
- Actual vs. expected change

$$\log(c_2) - \log(c_1) = \frac{\text{Var}_1(Y)}{W_1^2} + \frac{1}{c_1} \zeta_2$$

- Status in 2005 is known

Other comments

- Role of unemployment benefits
- Territorial differences in the cost of living
- Do we need the final section with the calibrated models? Nice examples, but how robust are results to parameter variations?
- Macroeconomic relevance
 - How do precautionary savings of about 4 monthly wages affect aggregate consumption?