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

Hervé Le Bihan
Banque de France

The views in this presentation do not necessarily represent those of the Banque de France. Help from Béatrice Saes and Aurélie Tollet with data, and Frédérique Savignac for HFCS results, gratefully acknowledged.

HFCN Conference– December 2017, Paris
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
My comments

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)
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?

- Eurosysterm 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:
  \[\rightarrow\] 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 Eurosysterm!

- 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)