The effects of Hartz IV reform on Precautionary savings

Eun Ah Whang
Discussion by Mauro Mastrogiacomo
• Normally I would start with a summary ...

• Both text and notation need thorough check

• Editing
Literature review

• Incomplete (Guiso, Japelli, Terlizzese, 1992?)
• Interpretation of literature is missing (Mastrogiacomo, Alessie 2014 (OEP))
  – Subjective vs objective measurement of precautionary motive
• Self-employed (Hurst and Lusardi 2006)
• Will you take a stand?
Formal notation, equation 1

• First-difference equation on a two-years panel

\[ S_{it} = a_i + u_t + \gamma B_{it} + \delta X_{it} + e_{it} \quad (t=0,1) \]

  – If you have 2 years and you take first difference, what is \( t \)?
  – What is \( u_t \)? Is there a coefficient missing? Is it part of the error term? How do you identify it?

• When you explain the error term assumptions, where does alpha come from?

\[ Cov(X_{it}, \alpha_i) \neq 0 \text{ or } Cov(B_{it}, \alpha_i) \neq 0 \]
Equation 2

- Again same problems as before

\[
saving rate_{it}^* = u_t + \gamma B_{it} + \delta X_{it} + \nu_i + e_{it}
\]

- Plus, what is epsilon?

\[
N(0, \sigma^2_v) \text{ and } N(0, \sigma^2_\xi)
\]
Exposition

• Try to stick more to traditional set up of a treatment effect story.
  – Who is treatment and control?
  – Is there possible self selection into treatment?
  – Discuss main technical assumption assumptions, institutions (only if relevant)
  – Results
Exposition 2

- If you do diff in diff
  - Show first the common trend assumption
  - Do the standard robustness checks
    - Placebo
    - Anticipation effect
    - Delayed effect
    - Play around with time frame ...
Some conceptual issues

• You call “crowding-out” the effect of UI on private savings. But when UI benefits increase also labor supply/participation is displaced, right?

• I have no idea of how much UI pays ... not because I am uninformed, but because I do not care, I will never be unemployed!

• Following Lusardi your UI change could be a perfect instrument.
Conceptual issues 2

• Explain better that if UI benefits lower, receivers, who are liquidity constrained, will not save more, but are those currently employed that would start saving more!

• Dependent variable "Do you usually have an amount of money left over at the end of the month that you can save for larger purchases, emergency expenses or to acquire wealth? If yes, how much"
  – does for instance not include retirement or bequest savings ... is this the reason of the low effect?
  – Alternative measure / robustness?
Estimation results

• Model in first-difference (FD):
  – How comes you estimate gender and nationality effect?
  – Is the first-difference only in the LHS variable?
  – If not, how to interpret education, number of children?

• How comes RE model and FD have same amount of observations? ... how comes it is an uneven number if all are observed before and after the reform?
Minor points

• Table 4 descriptive statistics: incomes: conditional/unconditional? Min/ max?

• Table 5: do number of observations match the rest of the story?

• Figure 1: can u explain it better? why are some points aligned?

• Table 6: how can the means be informative if all samples are different in size