Policy uncertainty and precautionary saving
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Background

- Real house prices tripled in 1985–2005
  - MID in the Netherlands is generous
  - Cheap mortgage insurance (NHG)
  - High LTVs
  - Increasing popularity of interest only mortgage
- Decrease in house prices in recent years
  - Appr. 20% in total
  - Many mortgages ‘under water’ (LTV>1)
    - Appr. 1 million households
    - Impact on mobility
Temporary recovery in 2010

% verandering t.o.v. dezelfde maand een jaar eerder

Bron: CBS, Kadaster.
Policy debate

- MID was an important issue in all elections since 2000
  - Many expected a reform (DHS, figure 1)
    - Are those who ‘don’t know’ more uncertain?
- The authors fielded a questionnaire immediately after the 2010 elections
Three scenarios
- Gradual reduction of the maximum rate
- Gradual reduction of the maximum amount
- Transfer to ‘box 3’ (same treatment as other assets)

Expectations w.r.t. house price development
- Are associated with observed local price movements

Merged with DHS
Specification

- Starting point is Caroll and Samwick (1998)
- Ratio of active savings to permanent income is the dependent variable
  - Untransformed
  - How is permanent income measured?
- Cross-section analysis
Results

- **Short term**
  - No impact of aggregate (house price) uncertainty
  - Perceived house price risk of a policy reform increases savings
    - Effect 1.6%
  - If a more comprehensive control of uncertainty is used, the effect more than triples

- **Long term**
  - Similar result for the second specification
  - Insignificant coefficient if the more comprehensive control is used
Remarks (1)

- Your reasoning seems to be:
  - Policy reform causes house prices to change
  - Change in house prices causes a change in savings
    - Why?
      - Most people do not want to sell their house
      - House price developments are highly correlated
      - Few people sell their house at retirement
        - Perhaps their *children* should save more
Remarks (2)

The perceived policy reforms would have consequences for net interest payments
- They would increase for a number of years
- This would increase ‘fixed’ expenditures
- And reduce the opportunities for saving

The actual reform (in 2012) did not concern existing mortgages
- Lower house prices and low interest rates mitigated the impact on first-time buyers
Remarks (3)

- Relationship between the questionnaire and the two specifications was not clear to me.
- Is the symbol \( \mu \) ever explained?
- Why not do a panel data analysis?