

ECB

Fourth conference on household finance and
consumption

Discussion:

“Home production as a substitute to market
consumption? Estimating the elasticity using
houseprice shocks from the Great Recession”

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Frankfurt, December 17th, 2015

The paper: motivation

Is home production a substitute for market consumption?

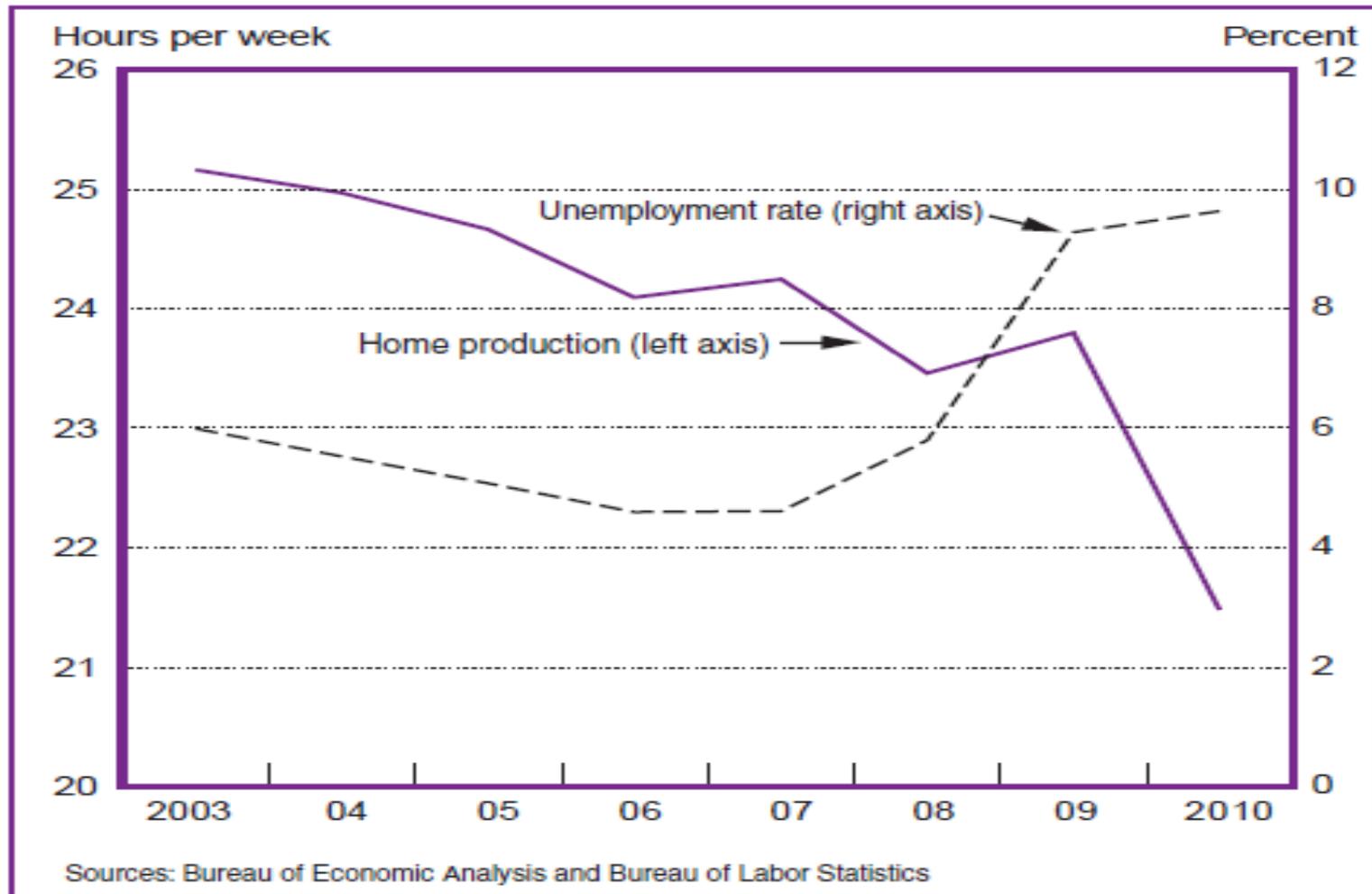
The question is extremely relevant:

- ✓ Well-being / inequality
- ✓ Home production a way to alleviate the consequences a shock to income on total consumption;
- ✓ Home production as an activity which is alternative to labour market participation

- ✓ Increasing literature on
 - ✓ The reaction of home production to business cycle fluctuations
 - ✓ But also relevant accounting issues (new NA revisions, new paid + unpaid work indicators).

Home production over the business cycle

Chart 1. Home Production Hours and Annual Unemployment Rate, 2003–2010



The paper: the main question

After an income shock people adjust consumption and home production

How to estimate the substitutability of consumption with home production when also the time budget varies?

E.g: unemployed/retired have more time to spend in home production

The authors argue that the response of home production to income shocks is a mixture of 2 components:

1. Home production vs market time
2. Home production vs consumption spending

Since they want the second component, they select a sample where the time budget does not vary: retired people

The paper: the results

1. They compare market spending in substitutable goods and home production
2. IV strategy: look at self-reported house prices as a shock to household income; IV-GMM setting
3. They find a very small effect: -0.65 elasticity of home production to market spending in substitutable goods
4. They conclude: the effect on home production found in early studies is primarily the consequence of increased non-market time available

My main comment: time spent in home production is at the maximum at retirement



Graphs by Country

Other comments

1. Not clear to me why look only at spending in substitutable goods: to produce goods at home one needs intermediate inputs included in other expenditure items. The authors could include also estimates for total consumption (or other items)
2. Not clear to me why IV-GMM: GMM are often not reliable. My suggestion is to present also OLS

Thank you very much!