

Household Debt and Consumption During the Financial Crisis: Evidence from Danish Micro Data

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Summary

- This paper shows that highly-leveraged household prior to the financial crisis reduced consumption more during the crisis than less-leveraged families.
- The relationship between leverage and consumption growth is non-linear. That said, households with high LTV ratio show an additional drop in consumption.
- Highly leveraged families consumed more than less leveraged ones before the crisis, but those differences in consumption level vanished after the crisis.
- The build-up of debt prior to the crisis push consumption to an unsustainable level and credit constraint can not fully explain the drop in consumption.

- This paper uses 800,000 Danish family data and extends Dynan (2012)'s work which used the US PSID:
 - I. A piece-wise linear specification according to LTV level identifies non-linear relationship between leverage and consumption.
 - II. Identifying family's different age finds a limited roll of credit constraint.
 - III. Consumption level analysis together with change in consumption shows the unsustainability of high level of consumption in pre-crisis.

Comments

- They consider the distinct characteristics of using an attractive Danish family data.
- Denmark is known as one of the leading welfare nations. Household debt itself may have limited impact on the reduction in consumption, if we consider the change in government spending which has supported the high level of consumption in pre-crisis.
- The characteristics of housing credit can be different particularly from US. US mortgages could become riskier than that of EU due to a complex securitization, while Denmark can have a stable mortgage system. Then, what has happened in the housing market? What is the impact of the change in the housing market on consumption?

Conclusions

- Overall, this paper utilizes 800,000 Danish household data and finds interesting relationship between household debt and consumption during the crisis.
- For further research, I would recommend to compare US and Denmark considering the welfare system in Denmark such as government subsidies for consumption and stable housing credit market.
- Housing market issue.
- More detailed analysis on why they have changed their consumption behavior.