Discussion to

Economic Integration and Mature Portfolios

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The aim and the result of the paper

Using newly available and internationally comparable household-level data, this paper focuses on international differences in asset holdings, such as stocks, private business and houses. The authors consider mature portfolios, held by people aged more than 50. They consider the US, the UK and 11 European countries.

The general idea is that with an increasing integration among countries, households of given characteristics should hold more similar portfolios.

The paper decomposes the observed differences in participation rates and in asset holdings in two components

1) the first deriving from differences in household characteristics of two populations (covariate effect)
2) the second stems from the influence that given characteristics have in two different countries (coefficient effect).

They find that wide differences still exist in mature portfolios both comparing Europe and the US and within Europe, revealing an incomplete integration.

The points of my discussion

The dataset is a great advantage and it has been used in a clever way to compare asset portfolios.

I have not much to say on econometric techniques for decomposition. My only concern is the sample selection when analysing asset holdings.

I wonder about the interpretation of the coefficient effect, i.e. the link between given characteristics and asset decisions, as reflecting only market conditions.

I will focus on some interesting differences that the authors elicit and that need to be better understood. Important agenda for future research.

The new dataset

As said, up to now international comparison of the household portfolios were not possible because comparable data didn’t exist.

So this is the first study using internationally comparable household-level data. And this is a distinctive contribution of this study. Besides, it does it in an intelligent way, showing that there are important differences in household mature portfolios, even after controlling for household characteristics.

Further, as the elderly are less exposed to uninsurable income risk, compared to young people, this is an evidence that the differences in portfolios observed in this paper are less due to a different international exposure to the income risk.

Sample selection and variables

In previous studies on households portfolio (Guiso, Haliassos and Jappelli, 2001), the asset participation and asset holdings were often analysed in the framework of a sample selection model, such as a Heckman model, to consider the fact that when you analyse the holding of assets you only focus on those people who already decide to enter the market. You can analyse separately the two decisions, participation and holdings, with two different regressions only if you can assume that the unobservable determinants of the two decisions are not correlated.

The paper uses quantile regression for the value of asset holdings. Therefore, it does not appear to account for sample selection. I wonder how much the authors think that their results could be affected by this point.

Further, I would like to see clearly cited in the paper which variables are used as regressors in the probit and quantile regressions.

What about mutual funds? Is there information on the specific types of mutual fund?

The interpretation of the coefficients

I wonder about the interpretation of the coefficient effect, i.e. the impact on the asset participation and holding due to the different influence of given characteristics, as determined only by differences in market conditions. Different influences of given characteristics can be also determined by different preferences in frameworks that maybe are less different than we think.

In the paper, the authors say that this is the usual motivation in the portfolio choice model: if households of given characteristics were faced with the same economic environment, they would make the same portfolio choices. However, what about preferences?

The interpretation of the coefficients (2)

The implied assumption supporting the calculations seems to be that population preferences are similar. What about if they are different, i.e. different risk aversion? For example, consider the finding that when applying to Sweden the US market conditions (i.e. the US coefficients), you would observe a reduction in stock ownership of around 25 p.p.. This is a huge reduction if you consider that you are imposing US market conditions, which should be conducive enough! So, it could be that different preferences in the two countries are also at work and that coefficient effects are capturing also this feature. Maybe this is the cultural heterogeneity cited in the conclusions of the paper.

Again, I think about the coefficients also capturing some preferences, and not only market conditions, also when you observe Fig.2, where there are decompositions in business ownership rates. In deciding to become a business owner, besides the market conditions, risk aversion, and more in general preferences for an independent job, play an important role. It could be that when applying the coefficient of a benchmark country, also these aspects are captured.

The definition of an important research agenda

This paper draws the outline of an important research agenda. Which differences are more interesting and deserve more analyses? Generally speaking, I think differences between the US and Europe and among European countries.

As a general conclusion, for asset participation and holdings, covariates effects are smaller than market condition effects. So it is the changing of the reaction to some specific household characteristics that has the greatest impact.

Therefore, it doesn’t seem that European households have very specific characteristics, it seems that they react to similar characteristics in a different, sometimes very different, way compared to the US households.

An interesting point is that European household devote larger real amounts to their primary residence because they face favorable conditions in the house market relative to the conditions they face in the stock market.

The definition of an important research agenda (2)

Market conditions are also important among the European countries.

Among European countries, another result that grabs the attention is that the market conditions in Germany are often less conducive than those of other countries. Applying German coefficients to household characteristics in other European countries, we observe a reduction, sometimes strong, in stock participation of most countries (Table 2). For homeownership the evidence is the strongest. Explanation?

Specifically for Italy, it is noticeable that applying the same US households' characteristics, there would be no increase in stock ownership. The lower share-ownership in Italy seems to be due entirely to less conducive market conditions.

Extend also to younger households. Recent changes in policy may have a greater impact on these people. For example, the recent change about the second pillar in Italy, i.e. the choice of holding part of the retirement treatment in the firm or move it to a pension fund, is likely to have a lower impact on old people.