

Intergenerational Transmission of Portfolio Choice.

Marius Grünewald¹

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¹European University Institute

Parents' portfolio choice impacts their children's choice?

- Specifically, does parental housing change children's housing status/expenditures? ("Composition as Externality")
- Housing has two crucial components that make it different, (il-)liquidity and collateral

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Why do we care?

- Welfare implications - Deliberate choice not to buy housing, not credit constraint?
- Inheritance Tax - Should we tax houses differently from assets?

Connection to Literature

A Look in the Data

The Model

Way Forward

Appendix

Connection to Literature

- No direct research on the interaction of housing and wealth transfer
 - **Intergenerational Wealth Transfers:** Black et al (2022), De Nardi (2004), De Nardi & Fella (2017), Koltikoff & Summers (1981), Nekoei & Seim (2023), Modigliani (1988), Ohlsson et al (2020), Saez & Zucman (2016),
 - **Portfolio Choice with Housing:** Cocco (2005), Mian & Sufi (2011), Mian & Sufi (2014), Mian et al (2013), Mian et al (2015), Wong (2022)
 - **Inheritance/Bequest Taxation:** Fahrhi & Werning (2010), Golgowsky (2021), Heathcote et al (2017), Kindermann et al (2020), Kopczuk (2013), Piketty & Saez (2013), Stantcheva (2005), Saez & Stantcheva (2018)

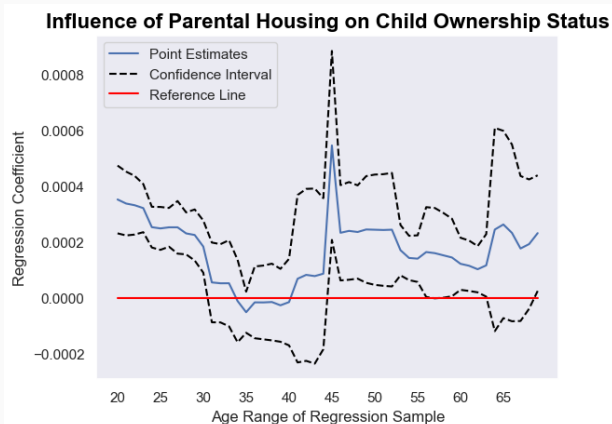
A Look in the Data

The Data

- Check if there is a correlation between the house value of parents and the homeownership status of children.
- PSID data 2013-2019 so far, plan to go back until 2000.
Combine Household Files (Assets) with Individual Files
- Connect Parents to their Children - still missing single mothers.
- Create a Panel Structure to follow individuals across waves
(Still invest more work in tracking across time - changing Household ID over waves).
- Is repeated OLS enough?

Correlation Evidence from Regressions

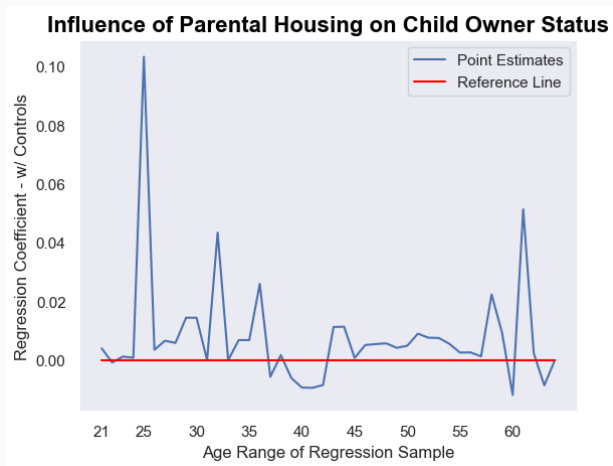
Overall, clear positive correlation in simple regression. But...



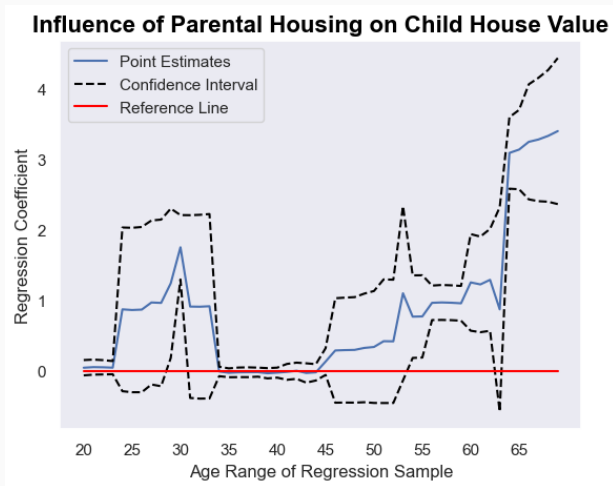
Considerable life-cycle dynamics with temporarily negative coefficients around age 35-40.

More Correlations

Now controls for (father's) wealth, income, demographics, occupation, education, time & household fixed effects.



What about House Value



With Controls

Mortgages

Mortgages with controls

Housevalue conditional

Some Limitations as of Now

- House value is estimated by owner.
- Correct for state-specific house price index?
- County-level location requires restricted access?
- Trying for register data?

The Model

Toy Model

1. Overlapping Generations Model, with risk of dying
2. Households choose: consumption, assets, and housing
3. Housing depreciates slowly (durable) **and**
Either: Enters utility function directly (consumption argument).
Or: Works as Collateral (liquidity argument)
4. Agents receive an inheritance with absolute certainty

The Households - Consumption Approach

State Variables S are: z, k, h, p, t :

The household maximizes over 50 years and retires at age 35

$$\implies y = 0$$

$$V(S) = \max_{c, k', h'} u(c, (1 - \delta_h)(h + \mathbf{h}_j)) + \beta s(t) V(S)$$

$$c + k' + p^h h = wy(z, t) + (1 + r)k + (1 - \delta_h)(h + \mathbf{h}_j)$$

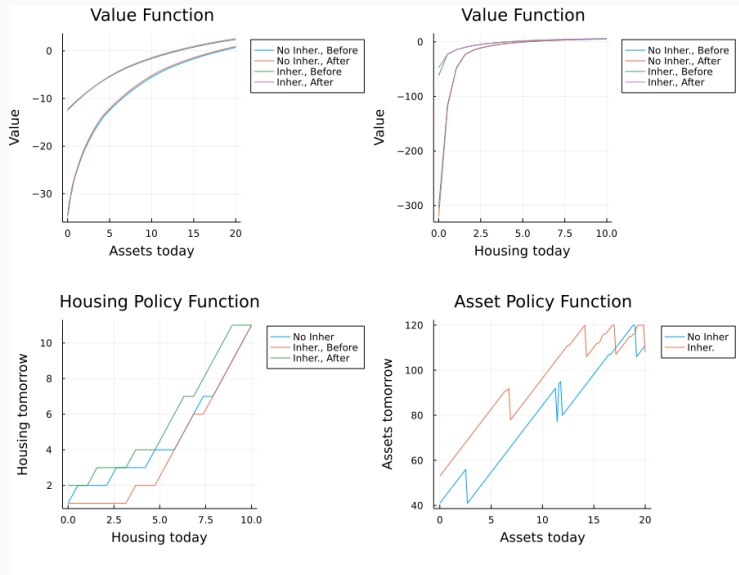
$$h' = (1 - \delta_h)(h + \mathbf{h}_j)$$

$$\mathbf{h}_j := \begin{cases} 1 & \text{if } j = 30, \\ 0 & \text{if } j \neq 30 \end{cases}$$

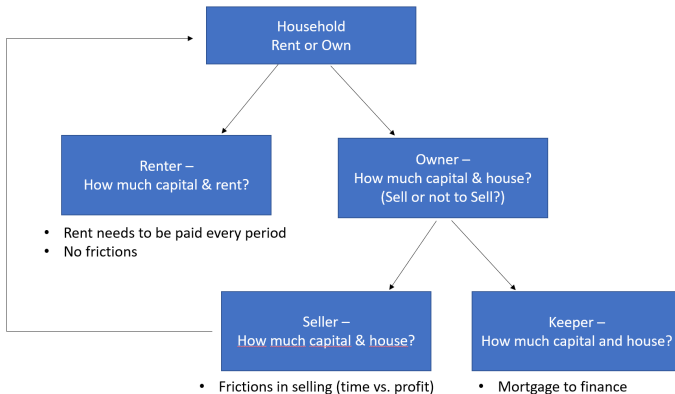
$$k', h' \geq 0$$

Take p^h, r, w as constant. z two states, high and low.

The Households - Some Results



Outline of Fully-Fledged Model



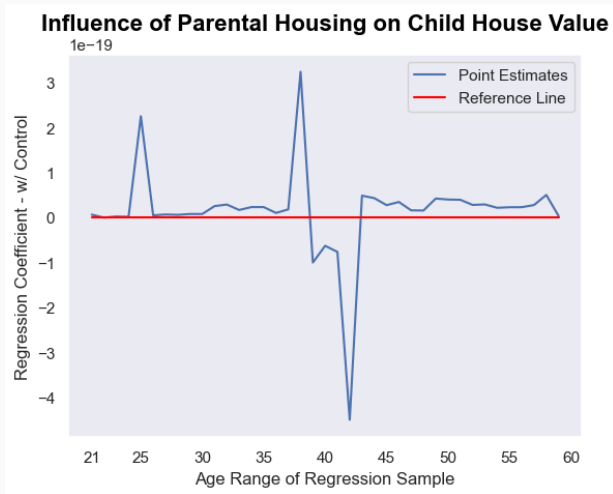
Way Forward

What to do next

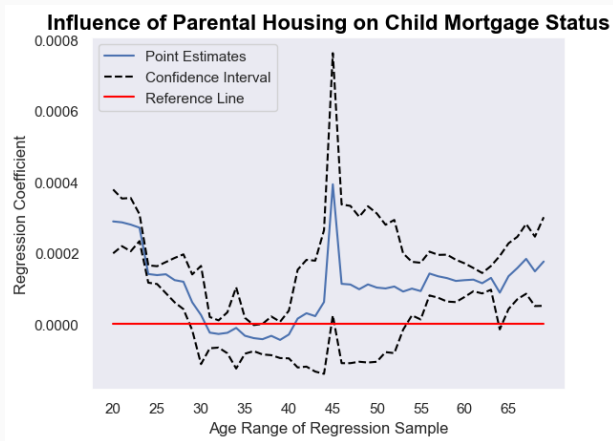
- Two-Period OLG model and solve analytically?
- Use the toy model to understand whether liquidity or durability or combination is both.
- Add data to strength motivating results? Potential idea: Quantile Regression to evaluate the impact on wealth quantiles.
- Fully-fledged quantitative model
- Policy experiment with inheritance taxation

Appendix

House Value w/ Controls

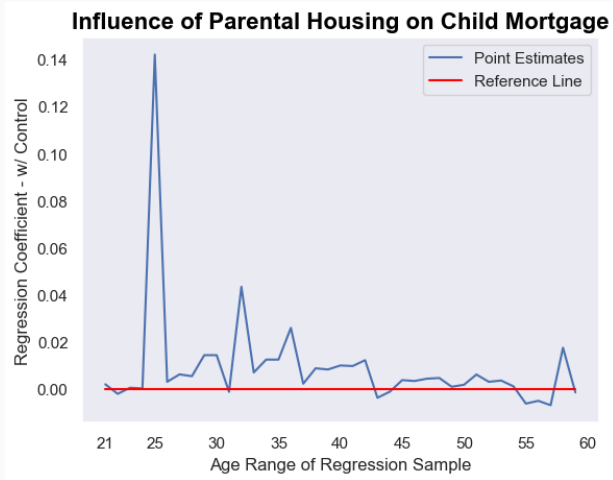


Mortgages



Back

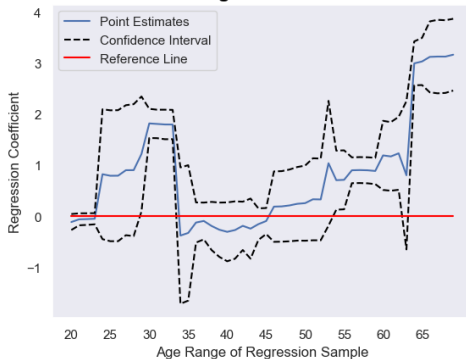
Mortgages w/ controls



Back

House Value conditional on owner status

Influence of Parental Housing on Child House Value - Given Owner



Back