Dual Credit Markets:
Income Risk, Household Debt, and Consumption
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Credit is an important source of insurance

- Of the **4 in 10** US adults anticipating difficult meeting an unexpected **$400 expense**, **credit cards** are the most cited tool they expect to rely on
(SHED, 2019)

- 43% of US houesholds experiencing an **income shortfall** report turning to borrowing
(SCF, 2016)

- Credit access can support consumption during unemployment, allowing for extended search and leading to **better re-employment outcomes**
(Herkenhoff, Phillips, and Cohen-Cole, 2022)

Risk can limit low-income households' access to credit

Fraction of HH with credit card debt
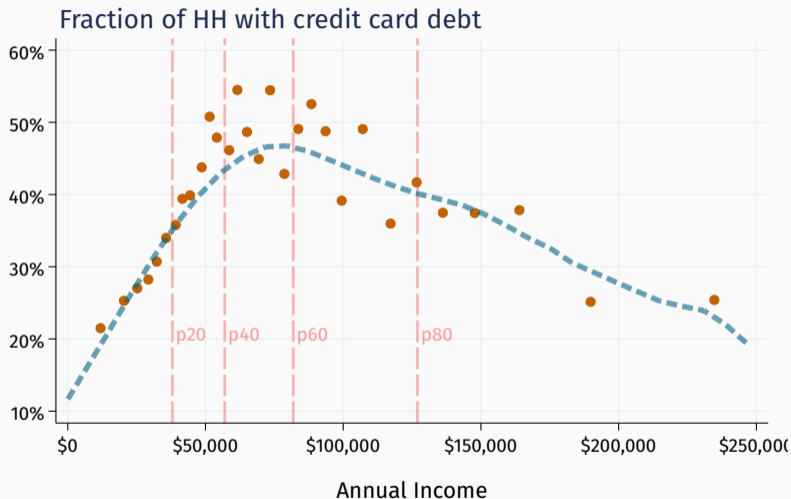
Source: Bornstein and Indarte (2023), 2017 PSID data

New in this paper: temporary vs permanent workers

- Temporary workers use less credit and are less successful when applying
  - Both secured and unsecured; temporary workers are less likely to own homes

- Labor laws improving job security for temporary workers $\Rightarrow$ improve credit access
  - Including mortgages, increasing homeownership

- In the US, lack of homeownership among temporary workers concentrated among "involuntary" temporary workers

- **Big picture:** reducing risk/increasing insurance can improve credit access!

In theory, it's not obvious what to expect wrt supply/demand

- **Demand**
  - More insurance ⇒ **lower** demand for credit to cope with shocks (Herkenhoff et al. 2022)
  - More insurance ⇒ **higher** demand for credit (weaker precautionary savings motive) (Vats, 2023)

- **Supply**
  - More insurance ⇒ **lowers default** risk ⇒ **raises** supply of credit (Bornstein and Indarte, 2023)
  - More insurance ⇒ **raises default** risk (financial autarky is less painful) ⇒ **lowers** supply of credit (Krueger and Perri, 2011)

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- **Advantage of paper's data:** data on credit applications!
  - Job risk ⇒ reduces apps, raises anticipated rejections, and increases actual rejections
  - In particular, %Δ applications = %Δ expect to be rejected ⇒ suggests expectations may explain most of the "demand" response

Comment 1: Relationship Between Temporary Worker Status and Credit

Who are temporary workers?

- Are temporary workers also more likely to have...

    ► Worse credit history?

    ► Less credit history (due to age)?

    ► More exposure to other shocks (health, expenses, etc.)?

    ► Poorer parents and less access to education and career networks? And less access to parental wealth to help with home purchases?
    (Benetton, Kudlyak, and Mondragon, 2023)

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- Reverse causality? Worse job outcomes due to...
  - ▸ Employers screening workers based on credit history
    (Bos, Breza, and Liberman, 2018; Corbae and Glover, 2022)
  - ▸ Lack of credit access limiting job search
    (Herkenhoff, Phillips, and Cohen-Cole, 2022)

Learning about selection on unobservables

- Coefficients on job loss risk can explain most of the difference in credit outcomes for temporary vs permanent
  - ▸ But if job risk is endogenous, we can't be sure that this doesn't reflect confounders or reverse causality

- **Suggestion:** implement an Oster (2019) style test
  - ▸ Idea: want to see that R^2 rises a lot when controls are added *and* the coefficient doesn't change much
  - ▸ If selection on unobservables is similar to observables, this would indicate limited bias
  - ▸ State-of-the-art generalization of Oster (2019): **Diegert, Masten, and Poirier (2022)**

Comment 2: Quasi-Experimental Variation in Employment Protection

What drives variation in worker protection laws?

- What kind of countries tend to promote increased job security?
  - ► Those with more generous social insurance?
  - ► Higher taxes?

- Within countries, policies may be accompanied by other labor market reforms
  - ► E.g., changes to unemployment insurance and welfare in Germany's Hartz reforms

- Regressions could conflate effects of employment protection laws and other cross-country differences or contemporaneous policies

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  - ▸ Paper discusses non-compliers whose jobs are so secure that they're unlikely affected

  - ▸ **Suggestion 2:** Can you find sets of industry/occupation groups that differ in exposure?

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  - ▶ **Suggestion 2:** Can you find sets of industry/occupation groups that differ in exposure?

- My suggestion #2 is similar in spirit to the current regression specification!
  - ▶ Idea: can refine it further if there are clear legal differences in exposure

  - ▶ E.g., public vs. private sector workers?

  - ▶ Can you compare workers in the same occupation and country, but different industries? (similarly to Fetter, Lockwood, and Mohnen, 2022)

Comment 3: All the Single Workers

Singles versus couples

- Non-primary earners within couples are more likely to be a temporary worker
  - They might also not be the primary person originating credit cards or applying for credit

- Overall, temporary workers tend to be single in the paper's data
  - But lumping singles in with non-primary earners from couples may result in understating negative credit effects of temporary worker status
  - Added worker effect reduces household risk
  - Additional reason permanent workers may have more credit access (and temporary workers in couples)

- **Suggestion:** split results by singles versus couples
  - Hypothesis: negative effects are concentrated among singles

Conclusion

In conclusion...

- Important question and powerful data sets!

- How do labor market conditions (and labor laws) interact with credit markets?

- Sheds light on broader question of how risk/insurance affect consumer credit markets

Thanks!