**Danmarks Nationalbank Workshop on Household Debt**
**Discussion Notes for Christophe Andre's Presentation**
**Tom Dorsey**
**International Monetary Fund**

I would like to thank the Danmarks Nationalbank for inviting me and some of my team to this very interesting conference. This is a very important topic given the interactions between housing, household debt, and the macro-economy in the crisis.

**We need to move beyond the crisis priorities in our analysis**. At the IMF, at least in the European Department and other more "operational" parts of the Fund, we have been focused mostly on the immediate policy priorities in recent years. As the crisis recedes, it is now time for our focus to shift from direct impacts of parts of the household balance sheet on key variables of interest to a broader picture of how policies should be assessed in more of an equilibrium context.

- For example, we have been focused on the risk of household mortgage and other debt to the financial system and the workout of problems with mortgages and other lending for banks and households once those risks have been realized and they are in trouble.

**For our own work on the Nordic countries, we are now trying to approach household balance sheets as an integrated portfolio of assets and liabilities.** The early part of Christophe's presentation takes this perspective and many of the items on today's agenda will help inform our thinking and research. Christophe said that we needed to take a holistic view, and I agree. However, I have a slightly different take on how to be holistic, although one that is consistent with Christophe's suggestion for all of our research and analysis. The Nationalbank here in Denmark has been thinking about these issues in balance sheet terms for some time, and we can usefully follow their lead.

**We should look at the entire household balance sheet in assessing policies.** Looking at the household balance sheet as a whole helps us capture the interrelationship among household assets and liabilities and helps in the assessment of policies that may directly affect only a single element of the balance sheet (e.g., taxes on pensions), but have spillovers to other parts of the balance sheet through substitution and income effects, through adding-up constraints, or other interrelationships. Policies may directly affect one component of the portfolio, but the entire balance sheet is influenced by the change in one item through budget constraints and relative returns.

Some examples of questions that seem worth exploring follow:

- **Housing:** Tax & mortgage interest deductibility affect the demand for housing, but how much do they also affect the demand for other assets including investment in self-employed businesses or in corporate securities both of which contribute to productive capital? Also, how much does incentivizing an increase in housing wealth at the expense of financial securities results in less liquid household portfolios?

- **Liquid financial assets:** Pension assets reduce the need for savings and presumably lessen the accumulation of other financial assets. Does it matter if pensions schemes are funded or not (presumably affecting credibility of the promised pensions) or if the scheme is defined benefit or defined contribution?

- **Mortgage debt:** Mortgage interest deductibility has an influence on the accumulation of housing wealth. To what extent does it also affect the accumulation of other debt?

- **Balance sheet size:** holding net worth constant, how does the size of the household balance sheet affect household behavior? Presumably, a larger balance sheet relative to disposable income implies larger shocks to consumption in response to positive or negative developments in asset prices. Are there other important effects?