

WHAT MONEY CAN BUY? PRESENTATION BY MARINA GINDELSKY, BEA

DISCUSSION BY ELLEN MCGRATTAN, U. MINNESOTA



- Construct joint distribution
 - Personal income (PI)
 - Personal consumption expenditures (PCE)
- Potentially useful for studies of:
 - Means-tested transfer programs
 - Credit and financial market access



- Income underreporting
 - $\circ\,$ At the bottom: transfers
 - Throughout distribution: tax cheating
- Consumption underreporting
 - In the aggregate: CE-PCE gap large and growing
 - Throughout distribution: unknown
- No administrative micro data for consumption



- Underlying data:
 - Current population survey
 - Consumer expenditure survey
- Plus imputations
- \Rightarrow Distributions of PCE after ranking households by PI



| PI: | | PCE deciles (Low to High): | | | | | | | | | | |
|-------|----|----------------------------|----|----|-----|-----|-----|-----|-----|------|--|--|
| 0-10% | .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 | | |
| 10-20 | .8 | .9 | .8 | .8 | .6 | .6 | .5 | .5 | .4 | .4 | | |
| 20-30 | .6 | .8 | .8 | .8 | .8 | .7 | .7 | .6 | .5 | .6 | | |
| 30-40 | .5 | .7 | .8 | .8 | .9 | .8 | .8 | .8 | .7 | .8 | | |
| 40-50 | .3 | .6 | .8 | .9 | .9 | 1.0 | .9 | 1.0 | 0.9 | 1.1 | | |
| 50-60 | .3 | .5 | .7 | .9 | 1.0 | 1.1 | 1.1 | 1.2 | 1.1 | 1.4 | | |
| 60-70 | .2 | .4 | .6 | .8 | 1.1 | 1.2 | 1.4 | 1.5 | 1.3 | 1.7 | | |
| 70-80 | .1 | .2 | .4 | .6 | .9 | 1.2 | 1.5 | 1.7 | 1.9 | 3.0 | | |
| 80-90 | .1 | .2 | .3 | .4 | .6 | .9 | 1.4 | 1.9 | 2.6 | 5.9 | | |
| 90+ | 0 | .1 | .1 | .2 | .3 | .6 | .9 | 1.6 | 3.3 | 12.8 | | |



| PI: | | PCE deciles (Low to High): | | | | | | | | | | |
|-------|----|----------------------------|----|----|-----|-----|-----|-----|-----|------|--|--|
| 0-10% | .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 | | |
| 10-20 | .8 | .9 | .8 | .8 | .6 | .6 | .5 | .5 | .4 | .4 | | |
| 20-30 | .6 | .8 | .8 | .8 | .8 | .7 | .7 | .6 | .5 | .6 | | |
| 30-40 | .5 | .7 | .8 | .8 | .9 | .8 | .8 | .8 | .7 | .8 | | |
| 40-50 | .3 | .6 | .8 | .9 | .9 | 1.0 | .9 | 1.0 | 0.9 | 1.1 | | |
| 50-60 | .3 | .5 | .7 | .9 | 1.0 | 1.1 | 1.1 | 1.2 | 1.1 | 1.4 | | |
| 60-70 | .2 | .4 | .6 | .8 | 1.1 | 1.2 | 1.4 | 1.5 | 1.3 | 1.7 | | |
| 70-80 | .1 | .2 | .4 | .6 | .9 | 1.2 | 1.5 | 1.7 | 1.9 | 3.0 | | |
| 80-90 | .1 | .2 | .3 | .4 | .6 | .9 | 1.4 | 1.9 | 2.6 | 5.9 | | |
| 90+ | 0 | .1 | .1 | .2 | .3 | .6 | .9 | 1.6 | 3.3 | 12.8 | | |

Generous government transfers??



| PI: | PCE deciles (Low to High): | | | | | | | | | |
|-------|------------------------------|----|--------------------------|--------|-------|-------|--------|----|----|----|
| | <u>Share of PCE :</u> | | | | | | | | | |
| 0-10% | .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 |
| | Share of disposable income : | | | | | | | | | |
| 0-10% | | | | | | | | | | |
| | | | $\underline{\mathbf{S}}$ | hare (| of ho | useho | olds : | | | |
| 0-10% | | | | | | | | | | |

Let's focus on poorest households



| PI: | | PCE deciles (Low to High): | | | | | | | | | |
|-------|----|----------------------------|-------|------------|--------|--------|--------|------|----|----|--|
| | | | | <u>Sha</u> | re of | PCE | : | | | | |
| 0-10% | .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 | |
| | | | Share | e of d | lispos | able i | ncom | ie : | | | |
| 0-10% | .6 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | |
| | | | S | hare | of ho | useho | olds : | | | | |
| 0-10% | | | | | | | | | | | |

Consumption is 2.7 times disposable income



| PI: | PCE deciles (Low to High): | | | | | | | | | | | |
|------------|------------------------------|----|------|--------|-------|--------|----|----|----|--------|--|--|
| | | | Sha | are of | PCE | | | | | | | |
| 0-10% .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 | (5.6%) | | |
| | Share of disposable income : | | | | | | | | | | | |
| 0-10% .6 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | (2.1%) | | |
| | | S | hare | of ho | usehc | olds : | | | | | | |
| 0-10% | | | | | | | | | | | | |

Consumption is 2.7 times disposable income



| PI: | PCE deciles (Low to High): | | | | | | | | | | |
|------------------------------|----------------------------|-------|--------|--------|--------|------|------|----|----|--|--|
| <u>Share of PCE :</u> | | | | | | | | | | | |
| 0-10% .8 | .7 | .7 | .6 | .5 | .5 | .4 | .5 | .5 | .4 | | |
| | | Share | e of d | lispos | able i | ncom | le : | | | | |
| 0-10% .6 | .4 | .3 | .2 | .2 | .1 | .1 | .1 | .1 | .0 | | |
| <u>Share of households :</u> | | | | | | | | | | | |
| 0-10% 4.4 | 1.8 | 1.1 | .7 | .5 | .4 | .4 | .3 | .3 | .1 | | |

Ratios of DPI to PCE are high across the distribution



- Possible answers:
 - Yes: social safety nets are working
 - Yes: credit markets allow significant smoothing
 - $\circ\,$ No: just picking up business owners with losses
 - No: just picking up households with capital losses
 - $\circ\,$ Can't say: DPI and PCE are too poorly measured
- Let's take a closer look at safety net estimates...



- Households in bottom DPI decile:
 - \circ \$24,000 in household income
 - \circ \$14,000 in government social benefits (GSB)
- GSB in NIPA = \$2,784B
 - \circ 58% = SS+medicare (or \$33K per recipient)
 - $\circ 30\% = \text{transfers for poor (or $21K per recipient)}$

• How are micro and macro data consistent?



- PCE >> PI because
 - $\circ\,$ Retirement income and capital gains excluded
 - Consumption financed by debt
- But this is not relevant for lowest DPI decile
 - Social security is included in DPI
 - $\circ\,$ Asset and debt holdings are low for bottom 10%



- Publish detailed methodologies for distributional data
- Provide underlying references and codes, eg,
 - Bibliography of studies motivating data imputations
 - Codes mapping publicly-available CE,CPS to PCE,DPI
- Provide more evidence on DPI v. PCE for poorest households