



# WHAT MONEY CAN BUY?

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## BEA-BLS Joint Project

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



## Main Challenges

- Income underreporting
  - 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



## Main Deliverable: PI by PCE Matrix

- Underlying data:
  - Current population survey
  - Consumer expenditure survey
- Plus imputations

⇒ Distributions of PCE after ranking households by PI



## PI by PCE Matrix

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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

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# PI by PCE Matrix

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 by PCE Matrix

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PI:	PCE deciles (Low to High):									
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	<u>Share of PCE :</u>									
0-10%	.8	.7	.7	.6	.5	.5	.4	.5	.5	.4
	<u>Share of disposable income :</u>									
0-10%										
	<u>Share of households :</u>									
0-10%										

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Let's focus on poorest households



# PI by PCE Matrix

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PI:	PCE deciles (Low to High):									
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	<u>Share of PCE :</u>									
0-10%	.8	.7	.7	.6	.5	.5	.4	.5	.5	.4
	<u>Share of disposable income :</u>									
0-10%	.6	.4	.3	.2	.2	.1	.1	.1	.1	.0
	<u>Share of households :</u>									
0-10%										

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Consumption is 2.7 times disposable income





# PI by PCE Matrix

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PI:	PCE deciles (Low to High):									
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	<u>Share of PCE :</u>										
0-10%	.8	.7	.7	.6	.5	.5	.4	.5	.5	.4	(5.6%)
	<u>Share of disposable income :</u>										
0-10%	.6	.4	.3	.2	.2	.1	.1	.1	.1	.0	(2.1%)
	<u>Share of households :</u>										
0-10%											

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Consumption is **2.7 times** disposable income



# PI by PCE Matrix

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PI:	PCE deciles (Low to High):									
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	<u>Share of PCE :</u>									
0-10%	.8	.7	.7	.6	.5	.5	.4	.5	.5	.4
	<u>Share of disposable income :</u>									
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

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Ratios of DPI to PCE **are high** across the distribution



# Has Poverty Been Conquered?

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



## Closer Look at Safety Net Estimates

- Households in bottom DPI decile:
  - \$24,000 in household income
  - \$14,000 in government social benefits (GSB)
- GSB in NIPA = \$2,784B
  - 58% = SS+medicare (or \$33K per recipient)
  - 30% = transfers for poor (or \$21K per recipient)
- How are micro and macro data consistent?



# Explanations of Gindelsky-Martin

- PCE >> PI because
  - 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
  - Asset and debt holdings are low for bottom 10%



## Recommendations for BEA

- 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