

Assessing Proposed CE Redesign Options: Implications for Academic Economic Research

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- Both options provide creative approaches for addressing the concerns which underlie the redesign.
 - Major undertaking in a short period of time
- My discussion is in my role as an academic researcher who is an end user of the CE data.
- I will confine my comments to a very limited set of issues.

Economic Research Using the CE Data

- Research topics using the CE include (but are not limited to)
 - Estimation of demand systems
 - Measuring inequality using consumption rather than income
 - Distributions of expenditures
 - by demographics
 - by program participation
 - Alternative methods of computing trends in prices
 - Testing the Life-cycle/Permanent Income Hypothesis
- Proposed redesigns affect elements of the survey that have common implications across these topics
 - However, will focus on the last topic for this discussion

The Life-cycle/Permanent Income Hypothesis (LCPIH)

- This theoretical framework has a few important assumptions.
 - Consumers are forward-looking: expectations of future income as well as current income and assets affect decisions today
 - Consumers care about their future circumstances: they equally enjoy consumption today and (discounted) in the future.
 - Consumers have rational expectations.
- A variety of implications emerge:
 - Expected vs. unexpected income changes
 - Transitory vs. permanent income changes
 - Consumption is a preferred measure of well-being over income.

Testing the LCPIH with the CE Data

- Using the CE Quarterly Interview Survey
 - The impact of tax refunds on household consumption
 - The impact of social security taxes on household consumption
 - The impact of tax rebates on household consumption
- Using the CE Diary Survey
 - The impact of social security checks on household consumption

Features of the Redesigns: Altering the Panel Component

- Both redesigns maintain the panel feature of the data
 - 1 Two quarterly expenditure observations one year apart
 - 2 Three monthly expenditure observations six months apart
- Affects examination of short-run changes using a panel
 - Response to tax rebates requires observations closer together.
 - Perhaps implement a repeated cross-sectional data design.
- Synthetic cohorts provide an panel alternative in the UK
 - Cannot exploit idiosyncratic variation with cohort aggregates.
- Research continues but questions and methods evolve.

Features of the Redesigns: Collecting All Expenditures

- Both redesigns retain the feature of collecting all expenditure categories from all households
 - 1 Maintains format of both an interview and a diary survey
 - 2 An integrated interview format with feature of both
- Theoretical framework aligns with non-durable consumption
 - Durable consumption presents empirical challenges.
 - Cannot rely on $Y - S = C$
- Much research does not distinguish bananas vs. fruit vs. food
 - Little discussion of using global expenditure categories which might address non-response issues
- Tests of LCPIH need all expenditures from everyone
 - Imputing expenditures using income artificially violates LCPIH

Features of the Redesigns: Labor Force/Income Data

- Neither redesign addresses labor force and income data
 - Currently collected in the second and fifth interviews
 - Corresponds to the year prior to the survey
 - Does not match period of expenditure collection
- Collection period differences influence research topics
 - Cannot study how labor market events such as unemployment and retirement affect within-household consumption
 - Consumption in lowest decile is over twice as large as income
 - Cannot apply balance edit methods in field
- Tests of LCPIH require alternate information to construct income changes since such data is lacking
 - E.g., create income change due to Social Security tax change based on total earnings
 - Added module on timing of tax rebate receipt

Features of the Redesigns: Addressing Non-Response

- Current participation rate in both CE surveys is roughly 75%.
 - Triggers non-response bias analysis under OMB guidelines
 - Participation rate is lower in Canada, 62%, and UK, 51%
 - Redesign 1 similar to Canada; Redesign 2 similar to UK
- Neither fully addresses survey participation implications
 - Both advocate to collect, scan, mail, e-mail, etc. receipts
 - Both advocate use of financial records
 - Both advocate maintaining a panel component
 - Impact on participation rate is still unknown
- Use of these technologies is to reduce item non-response
 - Human component affecting diaries now still will matter
- Research typically ignores participation and item non-response
 - Need to address in estimation may increase with redesign

- Both teams should be commended for their efforts.
- Redesign raises a number of issues for researchers.
- Research methods may need to adapt.
 - Trade-offs in questions that can and cannot be asked.
 - Development and/or implementation of different methodologies may be required relative to prior CE studies.
- Changes to the collection of non-expenditure items may broaden the research topics that can be investigated.