Testimony to CNSTAT Panel on CE Redesign

Christopher D. Carroll (JHU)

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Keck Center
Washington, DC
A Good Start

Congratulations: BLS and CNSTAT doing a bang-up job so far

My emphasis:
- Things Not Mentioned
- Things Underemphasized
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What is the unique purpose of a CE study?

- *Complete* breakdown of HH expenditures
- Not sufficient to focus on easily measured items
  - Housing
- Those are available (easily) elsewhere
- Point of CE
  - Measure things *not* easy to measure (well)

If a HH’s $X$ is only $2/3$ of its $Y$, then:

- Household saved $1/3$ of its income
- We’re undermeasuring *some categories* of $X$ (weights wrong!)
- We’re overmeasuring $Y$ (unlikely)
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Measuring ‘Dark Matter’

Use all the tools at our command – including arithmetic!

Following NIPA’s, don’t be afraid of ‘Theory:’

- Tells you what to look for
- Tells you where to look
- Tells you how to fill in the missing pieces
  - If they spend money on gasoline, probably own a vehicle!
  - ⇒ Ask them about other vehicle-related expenses
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Object of Interest is How Spending *Changes*

Survey methodologists may quail and tremble, but it must be done.

- Can’t understand HH decisions without seeing how they *change* with circumstances
- Fundamental principle of psychology
- Failure to have panel data caused the financial crisis!
  - Measuring cross section is measuring the wrong thing
  - If I could have one or the other, I’d pick change
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People *Want to Know* About Their Own Finances

Response rate is low: Tedium and burden, no payback

- At end of survey, give them a breakdown
  - By spending category;
  - or net worth;
  - or a balance sheet –
  - Do focus groups to see what people want
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Lots of other entities need similar data

- Consumer Financial Protection Bureau
- Office of Financial Stability
- Federal Reserve Board
- Private Sector

⇒ make the survey *methods and procedures* ‘open source’

- So others can build on/contribute to the project:
  - Define core set of ‘high-reliability’ data for each HH
  - Will allow diversity in branching off
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    - Require data-sharing (from others to BLS) in exchange?
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There should be several; transparency in assessment of quality of data is crucial

- Aggregate retail sales (very well measured)
- Administrative data (Social Security earnings records)
- Flow-of-Funds?
- Survey of Consumer Finances?
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  • Accumulation of expertise
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