GDP AND BEYOND: NEXT PHASE

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BEA ADVISORY COMMITTEE, MAY 2021
What is the BEA Strategic Plan?

- Measure income and consumption distributions
- Tie measures to current NIPA aggregates
Significant Challenges

• BEA has no access to tax micro data

• Even if they had it, tax returns have
  ○ Only half of income
  ○ No consumption expenditures
Half of Income Untaxed

Source: Auten and Splinter (2020)
What does BEA Do?

- BEA relies heavily on household surveys
- But, surveys can be unreliable
What does BEA Do?

- BEA relies heavily on household surveys
- But, surveys can be unreliable
  - Consider the SCF as an example...
Households asked to report specific lines on tax forms

Example:

What was the business’s total net income before taxes?

Sole proprietorship: IRS Form 1040, Sch. C, Line 31
S corporation: IRS Form 1120S, Line 21
Partnership: IRS Form 1065, Line 22
C corporation: IRS Form 1120, Line 30
Bottom line:

- SCF respondents overstate incomes on tax forms
- Even if IRS data adjusted for misreporting
What about Other Surveys?

• Unlike SCF:
  ○ Incomes not connected to line items on tax forms
  ○ Legal form of business not distinguished

⇒ Harder to verify accuracy

• Reconsider comparison for unincorporated businesses...
Unincorporated Businesses on Multiple Surveys

Bottom line:

- All surveys inconsistent with IRS data
- Estimates inconsistent across surveys
Recommended Short-Run Goals

- Use only publicly-available data
- Provide detailed documentation on imputations
- Write R codes allowing users to change assumptions
- Avoid cherry-picking opportunities
Avoid Cherry-Picking Opportunities

Source: Auten and Splinter (2020)
Recommended Long-run Goals

• Consider the uses of these data

• Are they inputs for studying:
  ○ Retirement financing needs?
  ○ Redistribution policy?
  ○ Social programs?
• Want estimates of lifetime consumption:

\[
\sum_{s=0}^{\infty} \frac{c_{t+s}^i}{R_{t,t+s}^i} = W_t^i + \sum_{s=0}^{\infty} \frac{w_t s h_{t+s}^i}{R_{t,t+s}^i} + \sum_{s=0}^{\infty} \frac{(Tr - Tax)_t s}{R_{t,t+s}^i}
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Financial Human Entitlement

• Would be great if BEA/BLS made progress on this