



# 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

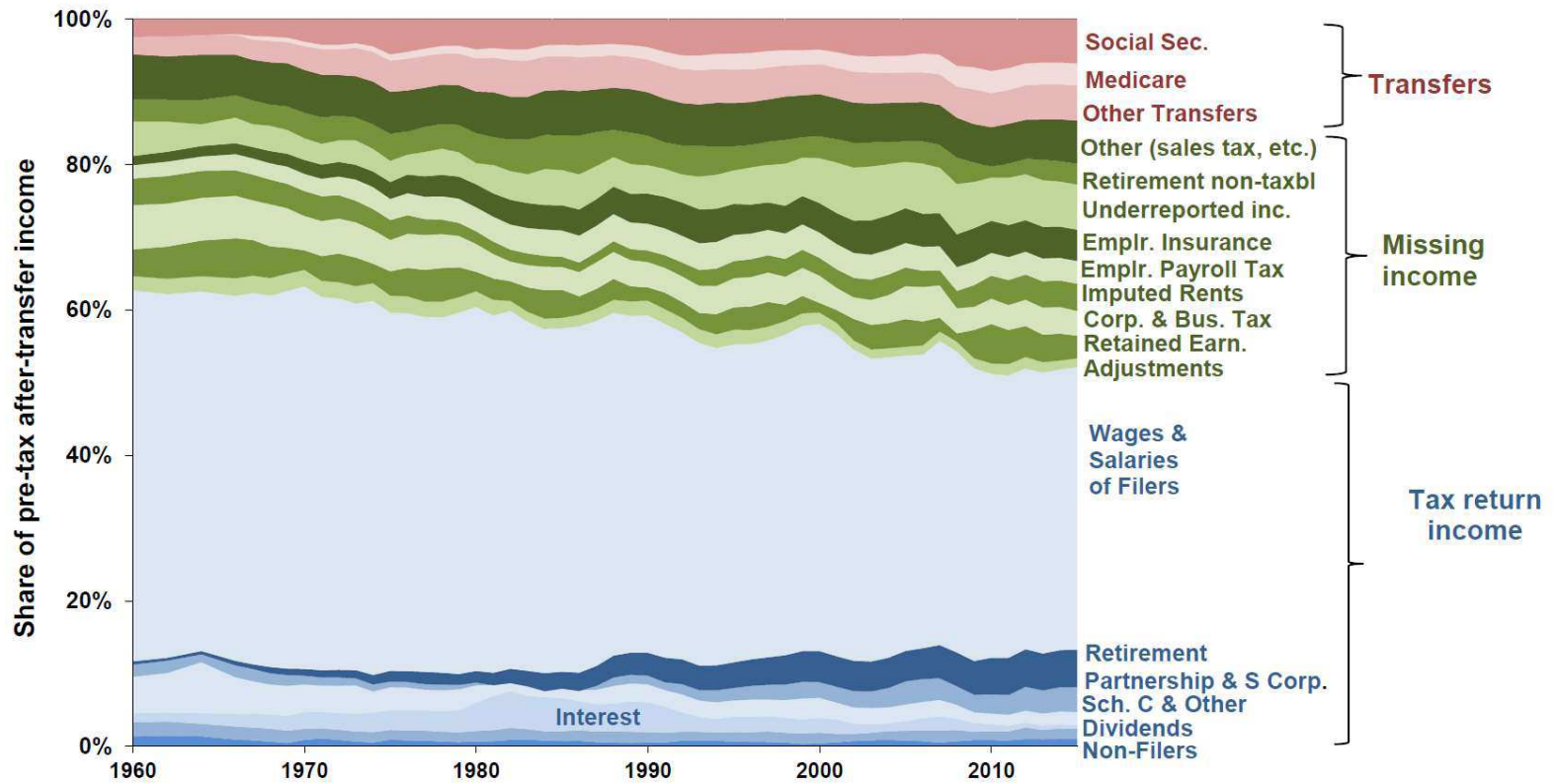


## Significant Challenges

- 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...



## SCF

- 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*

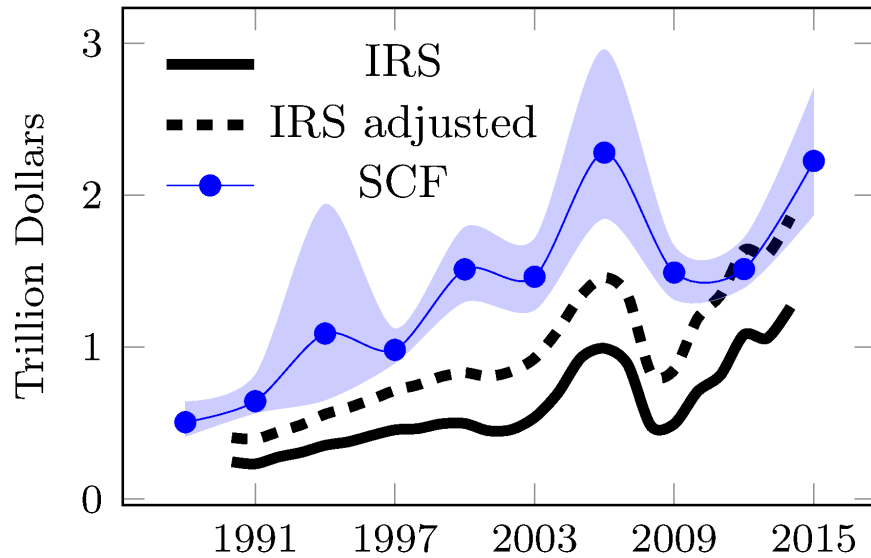
*Partnership: IRS Form 1065, Line 22*

*C corporation: IRS Form 1120, Line 30*

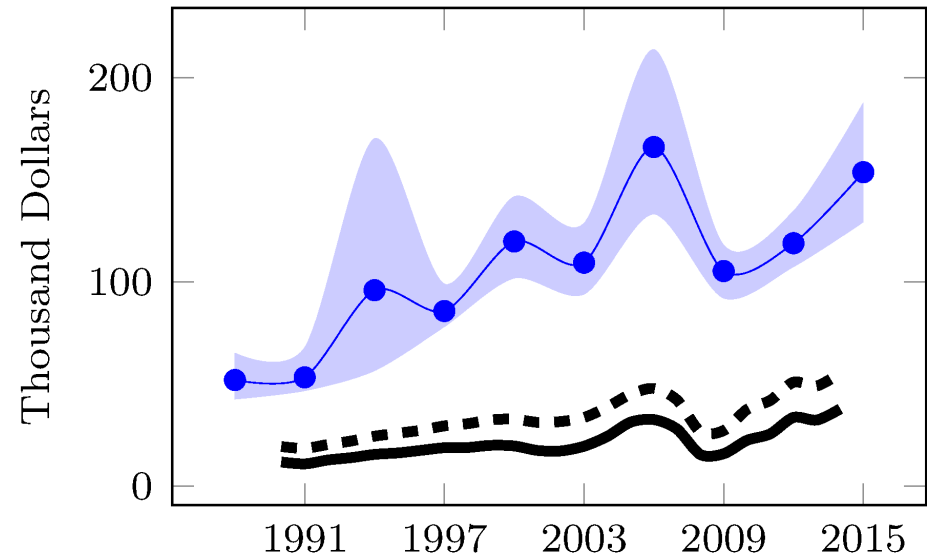


# Results for All Businesses in SCF

### Aggregate Business Income



### Business Income per Return



Bottom line:

- SCF respondents overstate incomes on tax forms
- Even if IRS data adjusted for misreporting





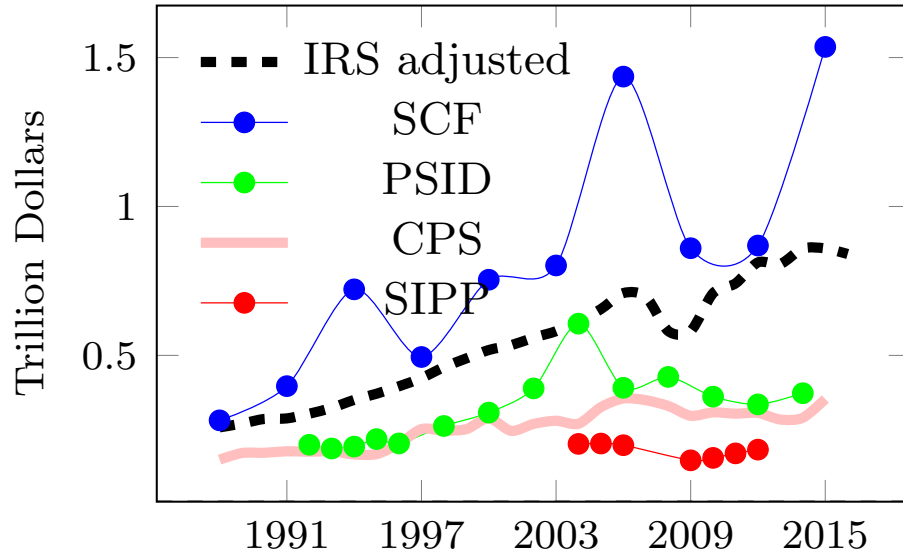
## What about Other Surveys?

- 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...

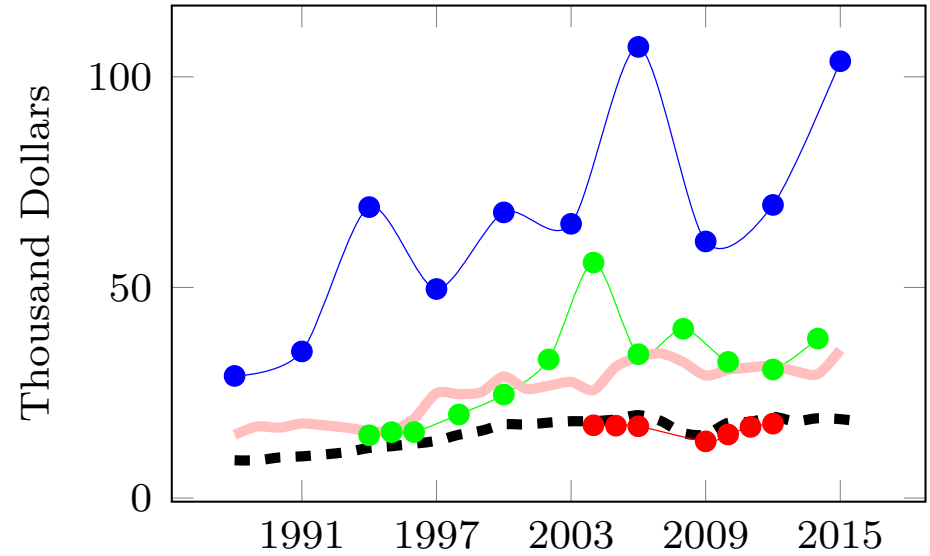


# Unincorporated Businesses on Multiple Surveys

Business Income



Business Income per Owner



Bottom line:

- All surveys inconsistent with IRS data
- Estimates inconsistent across surveys

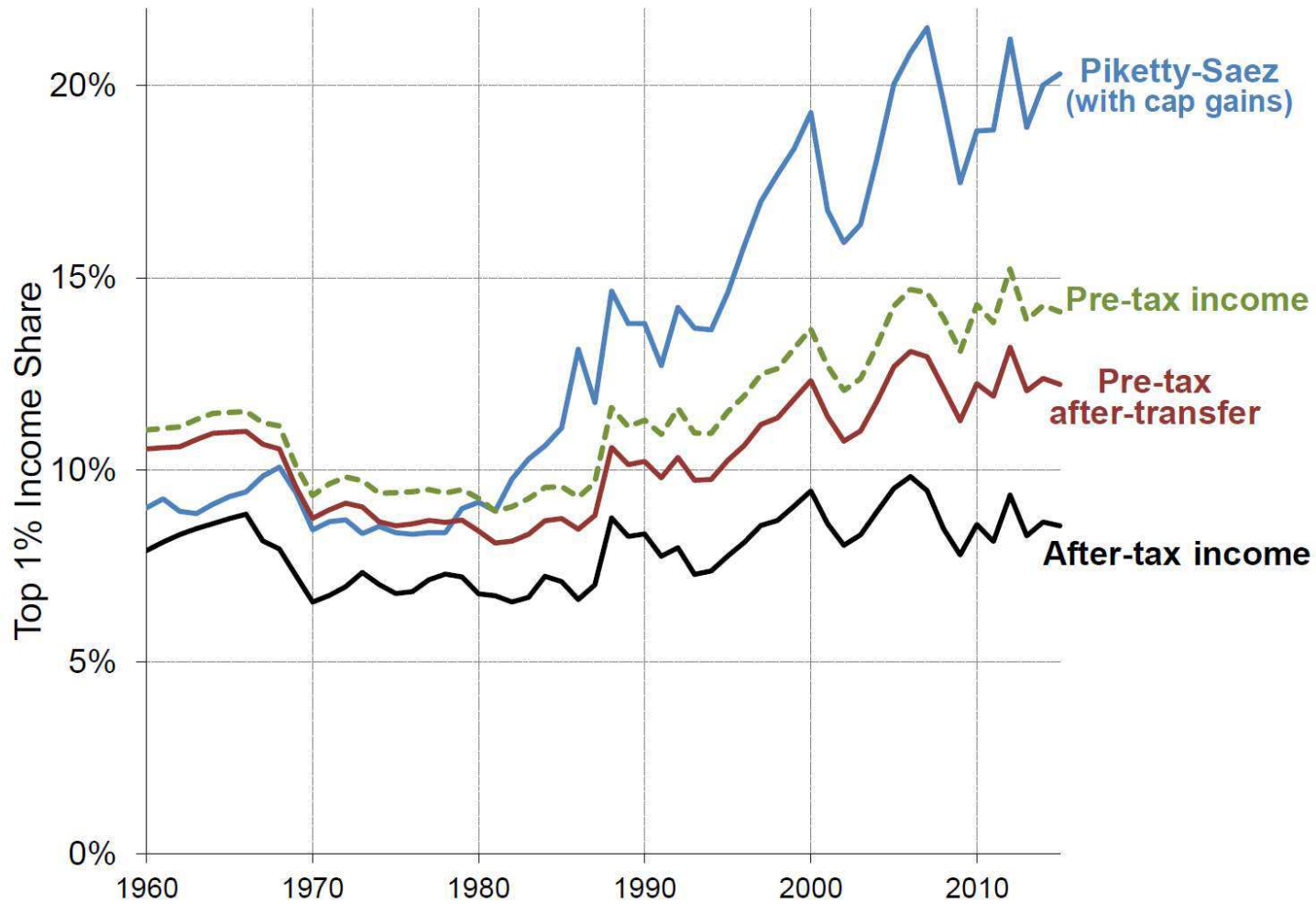


## Recommended Short-Run Goals

- 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?



# Measuring Economic Well-being

- Want estimates of lifetime consumption:

$$\sum_{s=0}^{\infty} \frac{c_{t+s}^i}{R_{t,t+s}^i} = \underbrace{W_t^i}_{\text{Financial}} + \underbrace{\sum_{s=0}^{\infty} \frac{w_{t+s}^i h_{t+s}^i}{R_{t,t+s}^i}}_{\text{Human}} + \underbrace{\sum_{s=0}^{\infty} \frac{(Tr - Tax)_{t+s}^i}{R_{t,t+s}^i}}_{\text{Entitlement}}$$

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